



MAKHADO LOCAL MUNICIPALITY  
Annual Financial Statements  
for the year ended 30 June 2013

Auditor General (S.A)  
Registered Auditors

# **MAKHADO LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

## **General Information**

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### **Executive committee**

Mayor and chairperson of executive committee

Municipal manager

Speaker

Chief whip

F D Mutavhatsindi

IP Mutshinyali

L.B Mogale

Ludere R

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## General Information

### Councillors

M T Matumba  
A Kennealy  
J P Underwood  
T M Mutele  
P F Mashimbye  
M Q Ratshivhombela  
S M Sinyosi  
M G Mahani  
D Ratshikuni  
S R Baloyi  
N R Thandavhathu  
M M Hlabioa  
M S Machete  
N G Ndzovela  
F F Madavhu  
V S Luduvhungu  
T P Mamorobela  
A T Neluvhola  
Z A Jooma resigned effective 20 May 2013  
S Masuka  
M G Nemafohoni  
T P Netshivhulana  
T A Mmbadi  
M R Madzivhandila  
A M Matodzi  
I Sakhwari  
N S Munyai  
M R Selepe  
M R Magada  
M D Mulovhedzi  
T M Malange  
F D Mutavhatsindi  
M E Malima  
N E Ngobeni  
M T Ndwammbi  
F J Rikhotso  
M P Mazibuko  
F B Hlongwani  
H F Mathavha  
O S Maphala  
M P Mathoma  
R T Makhubela  
F N Madzhiga  
N J Matumba  
M S Tshilambyana  
J Baloyi  
V S Makhuvha  
R G Machovani  
N F Chililo  
A J Mukhaha  
N D Davhana  
A Du Plooy  
T C Mamafha  
M D Mboyi  
R Malange  
T G Tshavhuyo  
N P Balibali  
S M Reikhotso  
N Kutama  
M W Netsianda  
M S Mamatsiari  
V C Ramabulana  
M J Gabara  
T P Nesengani

# MAKHADO LOCAL MUNICIPALITY

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## General Information

M J Shandukani  
N T L Mashamba  
A Z Maphahla  
T R V Mashau  
M F Mukhari  
L B Mogale  
S V Mahladisa  
H M Majosi  
T J Mamafha  
S A Molema  
M P Rasimphi  
M S Bungeni  
K A Hlungwani  
S T Mukhari  
S Z Mthombeni  
M C Masakona  
E H Ludere  
M M Lerule  
L M Mathalise  
S D Ramudzuli  
R Ludere  
M T Mutele  
R J Nkanyane

The following traditional leaders were appointed by MEC of Local Government and Housing to participate in council meetings

Hosi M S Bungeni  
Hosi S A Mulima  
Hosi H N Majosi  
Hosi S T Mukhari  
Hosi J Baloyi  
Khosi M A Madzivhandila  
Hosi T J Mukhari  
Khosi M W Netsianda  
Khosi N T L Mashamba  
Khosi V C Ramabulana

**Grading of local authority**

Grade 4

**Chief Finance Officer (CFO)**

M.P Makhubela

**Accounting Officer**

I.P Mutshinyali

**Registered office**

Corner Krogh and Erasmus Street  
Makhado  
0920

**Business address**

Corner Krogh and Erasmus Street  
Makhado  
0920

**Postal address**

Private Bag X2596  
Makhado  
0920

**Auditors**

Auditor General (S.A)  
Registered Auditors

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

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The reports and statements set out below comprise the annual financial statements presented to the Council of Makhado Local Municipality:

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### Abbreviations

COID	Compensation for Occupational Injuries and Diseases
CRR	Capital Replacement Reserve
DBSA	Development Bank of South Africa
SA GAAP	South African Statements of Generally Accepted Accounting Practice
GRAP	Generally Recognised Accounting Practice
GAMAP	Generally Accepted Municipal Accounting Practice
HDF	Housing Development Fund
IAS	International Accounting Standards
IMFO	Institute of Municipal Finance Officers
IPSAS	International Public Sector Accounting Standards
ME's	Municipal Entities
MEC	Member of the Executive Council
MFMA	Municipal Finance Management Act
MIG	Municipal Infrastructure Grant (Previously CMIP)

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Officer's Responsibilities and Approval

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The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the accounting officer sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

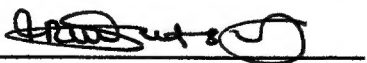
The accounting officer has reviewed the municipality's cash flow forecast for the year to 30 June 2014 and, in the light of this review and the current financial position, he is satisfied that the municipality has or has access to adequate resources to continue in operational existence for the foreseeable future.

The municipality is wholly dependent on the government for continued funding of operations. The annual financial statements are prepared on the basis that the municipality is a going concern and that the government has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

Although the accounting officer are primarily responsible for the financial affairs of the municipality, they are supported by the municipality's external auditors.

The external auditors are responsible for independently reviewing and reporting on the municipality's annual financial statements. The annual financial statements have been examined by the municipality's external auditors and their report is presented on page 8.

The annual financial statements set out on pages 8 to 54, which have been prepared on the going concern basis, were approved by the accounting officer on 31 August 2013 and were signed on its behalf by:



**I.P Mutshinyali**  
**Municipal Manager**

**MAKHADO LOCAL MUNICIPALITY**

Annual Financial Statements for the year ended 30 June 2013

**Statement of Financial Position as at 30 June 2013**

Figures in Rand	Note	2013	2012
<b>Assets</b>			
<b>Current Assets</b>			
Inventories	2	6,303,292	4,071,507
Receivables from exchange transactions	3	1,519,673	50,003
Receivables from non-exchange transactions	4	32,343,081	18,566,239
Prepayments	5	-	66,171
Consumer debtors	6	55,987,137	53,258,212
Cash and cash equivalents	7	9,711,042	15,198
		<b>105,864,225</b>	<b>76,027,330</b>
<b>Non-Current Assets</b>			
Investment property	8	52,491,463	52,491,463
Property, plant and equipment	9	1,772,567,781	1,798,305,523
Intangible assets	10	13,926	20,907
		<b>1,825,073,170</b>	<b>1,850,817,893</b>
<b>Total Assets</b>		<b>1,930,937,395</b>	<b>1,926,845,223</b>
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Borrowings	11	2,020,668	1,807,413
Finance lease liability	12	3,373,337	2,873,932
Operating lease liability	13	21,400	22,967
Payables from exchange transactions	14	109,235,438	70,766,571
VAT payable	15	4,008,815	10,954,652
Current portion of unspent conditional grants and receipts	16	42,149,361	36,130,084
Provisions	17	16,279,944	11,385,093
Consumer deposits	18	11,167,885	10,087,699
Deferred income	19	48,296	1,037
Bank overdraft	7	-	5,408,759
		<b>188,305,144</b>	<b>149,438,207</b>
<b>Non-Current Liabilities</b>			
Borrowings	11	7,126,549	10,245,861
Finance lease liability	12	17,656,286	21,029,841
Retirement benefit obligation	20	13,980,348	12,231,850
Provisions	17	5,964,393	5,497,139
		<b>44,727,576</b>	<b>49,004,691</b>
<b>Total Liabilities</b>		<b>233,032,720</b>	<b>198,442,898</b>
<b>Net Assets</b>		<b>1,697,904,675</b>	<b>1,728,402,325</b>
Reserves			
Revaluation reserve	21	1,101,246,127	1,101,246,128
Accumulated surplus		596,658,548	627,156,197
<b>Total Net Assets</b>		<b>1,697,904,675</b>	<b>1,728,402,325</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Financial Performance

Figures in Rand	Note	2013	2012
<b>Revenue</b>			
Service charges	24	211,360,159	222,324,610
Rental of facilities and equipment		162,944	357,495
Interest earned-outstanding receivables	32	16,356,985	16,694,669
Licences and permits		12,197,122	11,649,354
Other income		8,251,773	11,552,116
Interest earned - external investment	33	1,339,096	1,495,277
Property rates	23	28,090,803	26,433,850
Government grants & subsidies	25	310,533,726	254,267,868
Fines		2,618,528	1,703,645
<b>Total revenue</b>		<b>590,911,136</b>	<b>546,478,884</b>
<b>Expenditure</b>			
Personnel	27	(196,668,008)	(171,974,241)
Remuneration of councillors	28	(18,470,236)	(16,799,647)
Depreciation and amortisation	34	(112,129,281)	(123,095,071)
Impairment loss/ Reversal of impairments		(292,541)	(54,814,951)
Finance costs	35	(5,240,364)	(5,639,961)
Debt impairment	29	(27,934,403)	(40,022,325)
Repairs and maintenance	30	(14,637,011)	(19,993,650)
Bulk purchases	37	(156,610,984)	(141,762,394)
General Expenses	26	(88,177,185)	(108,763,200)
<b>Total expenditure</b>		<b>(620,160,013)</b>	<b>(682,865,440)</b>
<b>Deficit for the year</b>		<b>(29,248,877)</b>	<b>(136,386,556)</b>



# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Statement of Changes in Net Assets

Figures in Rand	Revaluation reserve	Accumulated surplus	Total net assets
<b>Balance at 01 July 2011</b>	<b>655,325,337</b>	<b>763,542,753</b>	<b>1,418,868,090</b>
Changes in net assets	-	(136,386,556)	(136,386,556)
Surplus for the year	445,920,791	-	445,920,791
Changes in revaluation surplus	445,920,791	(136,386,556)	309,534,235
<b>Balance at 01 July 2012</b>	<b>1,101,246,128</b>	<b>625,907,425</b>	<b>1,727,153,553</b>
Changes in net assets	-	(29,248,877)	(29,248,877)
Surplus for the year	-	(29,248,877)	(29,248,877)
<b>Balance at 30 June 2013</b>	<b>1,101,246,127</b>	<b>596,658,548</b>	<b>1,697,904,675</b>
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# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Cash Flow Statement

Figures in Rand		2013	2012
<b>Cash flows from operating activities</b>			
<b>Receipts</b>			
Property rates		28,090,803	34,836,428
Service charges		211,360,159	231,140,375
Grants		304,514,449	266,018,314
Interest income		1,339,096	1,495,277
Other income		23,230,367	53,667,045
		<b>568,534,874</b>	<b>587,157,439</b>
<b>Payments</b>			
Employee costs		(196,668,008)	(171,351,295)
Remuneration of council		(18,470,236)	(16,799,647)
Finance costs		(5,240,364)	(441,868)
Payment to suppliers		(259,425,150)	(141,258,130)
Other cash item		17,679,263	(177,934,312)
		<b>(462,124,495)</b>	<b>(507,785,252)</b>
<b>Net cash flows from operating activities</b>	38	<b>106,410,379</b>	<b>79,372,187</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment	9	(86,653,014)	(70,424,240)
Proceeds from sale of property, plant and equipment	9	-	12,485,285
<b>Net cash flows from investing activities</b>		<b>(86,653,014)</b>	<b>(57,938,955)</b>
<b>Cash flows from financing activities</b>			
Repayment of borrowings		(2,906,057)	(2,624,900)
Movement in deferred income		47,259	1,037
Movement in loans to directors, managers and employees		-	31,462
Finance lease payments		(2,874,150)	(22,879,399)
Distributions to owners		1,080,186	1,101,291
<b>Net cash flows from financing activities</b>		<b>(4,652,762)</b>	<b>(24,370,509)</b>
<b>Net increase/(decrease) in cash and cash equivalents</b>		<b>15,104,603</b>	<b>(2,937,277)</b>
Cash and cash equivalents at the beginning of the year		(5,393,561)	(2,456,284)
<b>Cash and cash equivalents at the end of the year</b>	7	<b>9,711,042</b>	<b>(5,393,561)</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1. Basis of preparation

These annual financial statements were prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act, (Act No 56 of 2003).

The annual financial statements were prepared on the accrual basis of accounting and incorporate the historical cost conventions as the basis of measurement, except where specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

The principal accounting policies, applied in the preparation of these annual financial statements, are set out below. These accounting policies are consistent with those applied in the preparation of the prior year annual financial statements, unless specified otherwise.

#### 1.1 Presentation of currency

These annual financial statements are presented in South African Rand.

#### 1.2 Going concern assumption

These annual financial statements were prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

#### 1.3 Comparative figures

##### Current year comparatives (Budget)

Budget information in accordance with GRAP 1 and 24, has been provided in a separate disclosure note to these annual financial statements.

##### Prior year comparatives

When the presentation or classification of items in the annual financial statements is amended, prior period comparative amounts are also reclassified and restated, unless such comparative reclassification and / or restatement is not required by a Standard of GRAP. The nature and reason for such reclassifications and restatements are also disclosed.

Where material accounting errors, which relate to prior periods, have been identified in the current year, the correction is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly. Where there has been a change in accounting policy in the current year, the adjustment is made retrospectively as far as is practicable and the prior year comparatives are restated accordingly.

The presentation and classification of items in the current year is consistent with prior periods.

The nature and reasons for the reclassification and restatement are disclosed in note 41 correction of prior period error to the Financial Statements.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.4 STANDARDS, AMENDMENTS TO STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE

The following Standards of GRAP and / or amendments thereto have been issued by the Accounting Standards Board, but will only become effective in future periods or have not been given an effective date by the Minister of Finance. The entity has not early-adopted any of these new Standards or amendments thereto, but has referred to them for guidance in the development of accounting policies in accordance with GRAP 3 as read with Directive 5.

**The following GRAP standards have been issued but will only be effective at a later date and have not been early adopted by the municipality:**

GRAP 21	Impairment of non-cash-generating assets
GRAP 23	Revenue from non-exchange transactions
GRAP 25	Employee Benefits
GRAP 26	Impairment of cash-generating assets
GRAP 103	Heritage Assets
GRAP 104	Financial Instruments

**Standards of GRAP that may be used to interpret the requirements of other Standards of GRAP:**

GRAP 24	Presentation of Budget Information in Financial Statements
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**The impact of GRAP standards issued but not yet effective on the financial statements of Makhado Local Municipality in the future are as follows:**

GRAP 18 This does not deal with the accounting treatment of any particular transaction of events but merely with the re-arrangement of information already presented and disclosed. The impact on the municipality's financial statements would be minimal.

GRAP 20 Councillors, committee members and close members of family will be disclosed as related parties. Normal suppliers and/or client relationship at arm's length and within normal operating parameters will not have to be separately disclosed.

GRAP 21 Assessment at every reporting date whether there are indicators that any assets have been impaired, the measurement of impairment losses and reversal of impairment losses. The impact of this Standard is not at this stage reasonably estimable.

GRAP 23 "The method or recognition and measurement of revenue from non-exchange transactions, specifically taxes and transfers. The municipality does not have taxes and the accounting policy for the disclosure and measurement of transfers implemented currently by the municipality already adheres to these requirements:

- Revenue is recognized to the extent that conditions have been met;
- A liability is recognized to the extent that the present conditions have not yet been met.
- An asset acquired through a non-exchange transaction is initially measured at its fair value as at the date of acquisition."

GRAP 24 A comparison of budget and actual amounts as additional budget columns in the primary financial statements and a disclosure note on the explanations of changes between the approved and final budget is required. The impact on the municipality's financial statements would be minimal.

GRAP 25 "The Standard on Employee Benefits will have no material impact on the financial statements of the municipality as the municipality is adhering to IAS 19 and there is no material changes from IAS19 to GRAP25 that is affecting this municipality."

GRAP 26 Assessment at every reporting date whether there are indicators that any assets have been impaired, the measurement of impairment losses and reversal of impairment losses. This Standard will be applicable to the Abattoir assets and the impact of this Standard would be minimal at this stage as the abattoir is currently undergoing an upgrade.

GRAP 103 This Standard will have no impact on the municipality as the municipality currently has no heritage assets.

GRAP 104 "The Standard on financial instruments will have no material impact on the financial statements of the municipality as the municipality is adhering to IAS32 and IAS39 and the changes from IAS32 and IAS39 to GRAP104 is not applicable to this municipality."

The municipality shall apply these Standards of GRAP for annual financial statements covering periods beginning on or after a date to be determined by the Minister of Finance in a regulation to be published in accordance with section 91(1) (b) of the Public Finance Management Act, Act No. 1 of 1999, as amended.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty

The use of judgment, estimates and assumptions is inherent to the process of preparing annual financial statements. These judgements, estimates and assumptions affect the amounts presented in the annual financial statements. Uncertainties about these estimates and assumptions could result in outcomes that require a material adjustment to the carrying amount of the relevant asset or liability in future periods.

#### Judgements

In the process of applying these accounting policies, management has made the following judgements that may have a significant effect on the amounts recognised in the financial statements.

#### Estimates

Estimates are informed by historical experience, information currently available to management, assumptions, and other factors that are believed to be reasonable under the circumstances. These estimates are reviewed on a regular basis. Changes in estimates that are not due to errors are processed in the period of the review and applied prospectively.

In the process of applying the municipality's accounting policies the following estimates, were made:

#### Trade and other receivables

Trade and other receivables are initially recognised at fair value plus transaction costs that are directly attributable to the acquisition and subsequently stated at amortised cost, less provision for impairment. All trade and other receivables are assessed at least annually for possible impairment. Impairments of trade and other receivables are determined in accordance with the accounting policy for impairments. Impairment adjustments are made through the use of an allowance account.

Bad debts are written off in the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the reporting date are classified as current. Interest is charged on overdue accounts.

#### Fair value determination of properties(excluding heritage assets)

In determining the fair value of investment property (and / or property, plant and equipment ) the entity applies a valuation methodology to determine the fair value of the properties based on any one of, or a combination of the following factors:

- The market related selling price of the property; or
- The market related rental that can be earned for the property; or
- The market related selling price of similar properties in the area; or
- The rentals currently or previously earned by the property.

#### Impairment testing

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the [name a key assumption] assumption may change which may then impact our estimations and may then require a material adjustment to the carrying value of goodwill and tangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. In addition, goodwill is tested on an annual basis for impairment. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets. Expected future cash flows used to determine the value in use of goodwill and tangible assets are inherently uncertain and could materially change over time. They are significantly affected by a number of factors including [list entity specific variables, i.e. production estimates, supply demand], together with economic factors such as list economic factors such as exchange rates inflation interest.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Other provisions

Provisions are measured as the present value of the estimated future outflows required to settle the obligation. In the process of determining the best estimate of the amounts that will be required in future to settle the provision management considers the weighted average probability of the potential outcomes of the provisions raised. This measurement entails determining what the different potential outcomes are for a provision as well as the financial impact of each of those potential outcomes.

Management then assigns a weighting factor to each of these outcomes based on the probability that the outcome will materialise in future. The factor is then applied to each of the potential outcomes and the factored outcomes are then added together to arrive at the weighted average value of the provisions.

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 17 - Provisions.

#### Post retirement benefits

Post-employment benefits offered by the entity take the form of defined benefit plans. The cost of defined benefit pension plans, other post employment medical benefits, and the present value of the pension obligation are determined using actuarial valuations. An actuarial valuation involves making various assumptions. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation, the underlying assumptions and its long-term nature, a defined benefit obligation is highly sensitive to changes in these assumptions. All assumptions are reviewed at each reporting date.

Other key assumptions for pension obligations are based on current market conditions. Additional information is disclosed in Note 20

#### Effective interest rate

The municipality used the prime interest rate to discount future cash flows.

#### Allowance for doubtful debts

The measurement of receivables is derived after consideration of the allowance for doubtful debts. Management makes certain assumptions regarding the categorisation of debtors into groups with similar risk profiles so that the effect of any impairment on a group of receivables would not differ materially from the impairment that would have been determined had each debtor been assessed for impairment on an individual basis. The determination of this allowance is predisposed to the utilisation of estimates, assumptions and management judgements. In determining this allowance the estimates are made about the probability of recovery of the debtors based on their past payment history and risk profile.

#### Provision for rehabilitation of landfill site

The entity has an obligation to rehabilitate its landfill sites in terms of its license stipulations. Provision is made for this obligation based on the size / extent of the land to be rehabilitated, the rehabilitation cost per square meter, the monitoring cost per square meter, and the rehabilitation period. Current costs are projected using the average rate of inflation over the remaining period until rehabilitation, and then discounted to their present value at 8.5%, representing the time value of money.

#### Depreciation and amortisation

Depreciation and amortisation recognised on property, plant and equipment and intangible assets are determined with reference to the useful lives and residual values of the underlying items. The useful lives and residual values of assets are based on management's estimation of the asset's condition, expected condition at the end of the period of use, its current use, expected future use and the entity's expectations about the availability of finance to replace the asset at the end of its useful life. In evaluating the how the condition and use of the asset informs the useful life and residual value management considers the impact of technology and minimum service requirements of the assets.

#### Heritage assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.5 Significant judgements and sources of estimation uncertainty (continued)

#### Impairment of non financial assets

In testing for, and determining the value-in-use of non-financial assets, management is required to rely on the use of estimates about the asset's ability to continue to generate cash flows (in the case of cash-generating assets). For non-cash-generating assets, estimates are made regarding the depreciated replacement cost, restoration cost, or service units of the asset, depending on the nature of the impairment and the availability of information.

### 1.6 Investment property

Investment property is property (land or a building - or part of a building - or both) held to earn rentals or for capital appreciation or both, rather than for:

- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

#### Fair value

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measure that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity apply the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.6 Investment property (continued)

#### Cost model

Investment property is carried at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is provided to write down the cost, less estimated residual value by equal installments over the useful life of the property, which is as follows:

Item	Useful life
Property - land	indefinite
Land other	50 years

Investment property is derecognised on disposal or when the investment property is permanently withdrawn from use and no future economic benefits or service potential are expected from its disposal.

Gains or losses arising from the retirement or disposal of investment property is the difference between the net disposal proceeds and the carrying amount of the asset and is recognised in surplus or deficit in the period of retirement or disposal.

Compensation from third parties for investment property that was impaired, lost or given up is recognised in surplus or deficit when the compensation becomes receivable.

### 1.7 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, its deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located is also included in the cost of property, plant and equipment, where the entity is obligated to incur such expenditure, and where the obligation arises as a result of acquiring the asset or using it for purposes other than the production of inventories.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Major spare parts and stand by equipment which are expected to be used for more than one period are included in property, plant and equipment. In addition, spare parts and stand by equipment which can only be used in connection with an item of property, plant and equipment are accounted for as property, plant and equipment.



# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.7 Property, plant and equipment (continued)

Major inspection costs which are a condition of continuing use of an item of property, plant and equipment and which meet the recognition criteria above are included as a replacement in the cost of the item of property, plant and equipment. Any remaining inspection costs from the previous inspection are derecognised.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land and buildings which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is restated proportionately with the change in the gross carrying amount of the asset so that the carrying amount of the asset after revaluation equals its revalued amount.

When an item of property, plant and equipment is revalued, any accumulated depreciation at the date of the revaluation is eliminated against the gross carrying amount of the asset and the net amount restated to the revalued amount of the asset.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited directly to a revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings when the asset is derecognised.

The revaluation surplus in equity related to a specific item of property, plant and equipment is transferred directly to retained earnings as the asset is used. The amount transferred is equal to the difference between depreciation based on the revalued carrying amount and depreciation based on the original cost of the asset.

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses.

Property, plant and equipment is carried at revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Revaluations are made with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair value at the end of the reporting period.

Any increase in an asset's carrying amount, as a result of a revaluation, is credited directly to a revaluation surplus. The increase is recognised in surplus or deficit to the extent that it reverses a revaluation decrease of the same asset previously recognised in surplus or deficit.

Any decrease in an asset's carrying amount, as a result of a revaluation, is recognised in surplus or deficit in the current period. The decrease is debited in revaluation surplus to the extent of any credit balance existing in the revaluation surplus in respect of that asset.

The useful lives of items of property, plant and equipment have been assessed as follows:

Item	Average useful life
Buildings	30 years
Vehicles	5-7 years

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.7 Property, plant and equipment (continued)

Furniture and fittings	7-10 years
Office equipment	
• Air Conditioners	5-7 years
• Office Machines	3-5 years
• Computer hardware	5 years
Infrastructure	
• Roads	10-30 years
• Pedestrian malls	20 years
• Electricity	20-30 years
• Water	15-20 years
• Sewerage	15-20 years
• Security measures	3-5 years
Community	
• Buildings and other assets	30 years
• Recreational facilities	20 years
Watercraft	15 years
Emergency equipment	5-15 years
Plant and equipment	2-15 years
Landfill sites	5 years
Other assets	
• Bins and containers	5-10 years
• Buildings	30 years

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated due to the uncertainty regarding their estimated useful lives. The valuation of heritage assets is dependent on the type of the asset and the availability of reliable information. Management makes estimates and assumptions about factors such as the restoration cost, replacement cost and cash flow generating ability in estimating fair value.

### 1.8 Intangible assets

An asset is identified as an intangible asset when it:

- is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, assets or liability; or
- arises from contractual rights or other legal rights, regardless whether those rights are transferable or separate from the municipality or from other rights and obligations.

An intangible asset is recognised when:

- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

Intangible assets are initially recognised at cost.

An intangible asset acquired through a non-exchange transaction, the cost shall be its fair value as at the date of acquisition.

Expenditure on research (or on the research phase of an internal project) is recognised as an expense when it is incurred.

An intangible asset arising from development (or from the development phase of an internal project) is recognised when:

- it is technically feasible to complete the asset so that it will be available for use or sale.
- there is an intention to complete and use or sell it.
- there is an ability to use or sell it.
- it will generate probable future economic benefits or service potential.
- there are available technical, financial and other resources to complete the development and to use or sell the asset.
- the expenditure attributable to the asset during its development can be measured reliably.

Intangible assets are carried at cost less any accumulated amortisation and any impairment losses.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.8 Intangible assets (continued)

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Internally generated brands, mastheads, publishing titles, customer lists and items similar in substance are not recognised as intangible assets.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

Item	Useful life
Computer software	6 years

### 1.9 Financial instruments

#### Classification

The municipality classifies financial assets and financial liabilities into the following categories:

- Financial liabilities measured at amortised cost

Classification depends on the purpose for which the financial instruments were obtained / incurred and takes place at initial recognition. Classification is re-assessed on an annual basis, except for derivatives and financial assets designated as at fair value through surplus or deficit, which shall not be classified out of the fair value through surplus or deficit category.

#### Initial recognition and measurement

The municipality recognises a financial asset or a financial liability in its Statement of Financial Position when, and only when, the entity becomes a party to the contractual provisions of the instrument. This is achieved through the application of trade date accounting.

Upon initial recognition the entity classifies financial instruments or their component parts as a financial liabilities, financial assets or residual interests in conformity with the substance of the contractual arrangement and to the extent that the instrument satisfies the definitions of a financial liability, a financial asset or a residual interest.

Financial instruments are evaluated, based on their terms, to determine if those instruments contain both liability and residual interest components (i.e. to assess if the instruments are compound financial instruments). To the extent that an instrument is in fact a compound instrument, the components are classified separately as financial liabilities and residual interests as the case may be.

#### Initial Measurement

When a financial instrument is recognised, the entity measures it initially at its fair value plus, in the case of a financial asset or a financial liability not subsequently measured at fair value, transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.9 Financial instruments (continued)

#### Subsequent measurement

Subsequent to initial recognition, financial assets and financial liabilities are measured at fair value, amortised cost or cost.

All financial assets and financial liabilities are measured after initial recognition using the following categories:

- a) Financial instruments at fair value.
  - Derivatives.
  - Compound instruments that are designated at fair value i.e. an instrument that includes a derivative and a non-derivative host contract.
  - Instruments held for trading.
  - Non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition.
  - An investment in a residual interest for which fair value can be measured reliably.

Financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

- Non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that the entity designates at fair value at initial recognition or are held for trading.

- b) Financial instruments at cost.

Investments in residual interests, which do not have quoted market prices and for which fair value cannot be determined reliably.

The entity assesses which instruments should be subsequently measured at fair value, amortised cost or cost, based on the definitions of financial instruments at fair value, financial instruments at amortised cost or financial instruments at cost as set out above.

#### Fair value determination

The fair values of quoted investments are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the municipality establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, and option pricing models making maximum use of market inputs and relying as little as possible on entity-specific inputs.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Impairment of financial assets

At each end of the reporting period the municipality assesses all financial assets, other than those at fair value through surplus or deficit, to determine whether there is objective evidence that a financial asset or group of financial assets has been impaired.

For amounts due to the municipality, significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy and default of payments are all considered indicators of impairment.

In the case of equity securities classified as available-for-sale, a significant or prolonged decline in the fair value of the security below its cost is considered an indicator of impairment. If any such evidence exists for available-for-sale financial assets, the cumulative loss - measured as the difference between the acquisition cost and current fair value, less any impairment loss on that financial asset previously recognised in surplus or deficit - is removed from equity as a reclassification adjustment and recognised in surplus or deficit.

Impairment losses are recognised in surplus or deficit.

Impairment losses are reversed when an increase in the financial asset's recoverable amount can be related objectively to an event occurring after the impairment was recognised, subject to the restriction that the carrying amount of the financial asset at the date that the impairment is reversed shall not exceed what the carrying amount would have been had the impairment not been recognised.

Reversals of impairment losses are recognised in surplus or deficit except for equity investments classified as available-for-sale.

Impairment losses are also not subsequently reversed for available-for-sale equity investments which are held at cost because fair value was not determinable.

Where financial assets are impaired through use of an allowance account, the amount of the loss is recognised in surplus or deficit within operating expenses. When such assets are written off, the write off is made against the relevant allowance account. Subsequent recoveries of amounts previously written off are credited against operating expenses.

#### Receivables from exchange transactions

Trade receivables are measured at initial recognition at fair value, and are subsequently measured at amortised cost using the effective interest rate method. Appropriate allowances for estimated irrecoverable amounts are recognised in surplus or deficit when there is objective evidence that the asset is impaired. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payments (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The allowance recognised is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the effective interest rate computed at initial recognition.

The carrying amount of the asset is reduced through the use of an allowance account, and the amount of the deficit is recognised in surplus or deficit within operating expenses. When a trade receivable is uncollectible, it is written off against the allowance account for trade receivables. Subsequent recoveries of amounts previously written off are credited against operating expenses in surplus or deficit.

Trade and other receivables are classified as loans and receivables.

#### Payables from exchange transactions

Trade payables are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method.

#### Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and demand deposits, and other short-term highly liquid investments that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value. These are initially and subsequently recorded at fair value.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.9 Financial instruments (continued)

#### Bank overdraft and borrowings

Bank overdrafts and borrowings are initially measured at fair value, and are subsequently measured at amortised cost, using the effective interest rate method. Any difference between the proceeds (net of transaction costs) and the settlement or redemption of borrowings is recognised over the term of the borrowings in accordance with the municipality's accounting policy for borrowing costs.

#### Impairment of financial assets

The municipality assesses at each statement of financial position date whether a financial asset or group of financial assets is impaired.

Assets are carried at amortised cost.

If there is objective evidence that an impairment loss on loans and receivables carried at amortised cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e. the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through the use of an allowance account. The amount of the loss shall be recognised in surplus or deficit. The municipality first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognised are not included in a collective assessment of impairment.

### 1.10 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the entity through the lease agreement. Assets subject to finance leases are recognised in the Statement of Financial Position at the inception of the lease, as is the corresponding finance lease liability.

Assets subject to operating leases, i.e. those leases where substantially all of the risks and rewards of ownership are not transferred to the lessee through the lease, are not recognised in the Statement of Financial Position. The operating lease expense is recognised over the course of the lease arrangement.

The determination of whether an arrangement is, or contains, a lease is based on the substance of the arrangement at inception date; namely whether fulfilment of the arrangement is dependent on the use of a specific asset or assets or the arrangement conveys a right to use the asset.

For arrangements entered into prior to 1 January 2005, the date of inception is deemed to be 1 January 2005, in accordance with the transitional requirements of GRAP 3.

#### Finance leases - lessee

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.10 Leases (continued)

#### Operating leases - lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term. The difference between the amounts recognised as an expense and the contractual payments are recognised as an operating lease asset or liability.

### 1.11 Inventories

#### Initial recognition and measurement

Inventories are initially recognised at cost. Cost refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

#### Subsequent measurement

Inventories, consisting of consumable stores and raw materials, are valued at the lower of cost and net realisable value unless they are to be distributed at no or nominal charge, in which case they are measured at the lower of cost and current replacement cost. The basis of determining cost is the [first-in, first-out (FIFO) method / weighted-average method]

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values.

Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction of inventories recognised as an expense in the period in which the reversal occurs.

#### Derecognition

The carrying amount of inventories is recognised as an expense in the period that the inventory was written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

It is the municipality's policy to write down the obsolete and slow moving inventory to the net realisable value of 66.67%.

### 1.12 Employee benefits

#### Short-term employee benefits

The cost of short-term employee benefits, (those payable within 12 months after the service is rendered, such as paid vacation leave and sick leave, bonuses, and non-monetary benefits such as medical care), are recognised in the period in which the service is rendered and are not discounted.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs.

The expected cost of surplus sharing and bonus payments is recognised as an expense when there is a legal or constructive obligation to make such payments as a result of past performance.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.12 Employee benefits (continued)

#### Defined benefit plans

For defined benefit plans the cost of providing the benefits is determined using the projected credit method.

Actuarial valuations are conducted on an annual basis by independent actuaries separately for each plan.

Consideration is given to any event that could impact the funds up to end of the reporting period where the interim valuation is performed at an earlier date.

Past service costs are recognised immediately to the extent that the benefits are already vested, and are otherwise amortised on a straight line basis over the average period until the amended benefits become vested.

To the extent that, at the beginning of the financial period, any cumulative unrecognised actuarial gain or loss exceeds ten percent of the greater of the present value of the projected benefit obligation and the fair value of the plan assets (the corridor), that portion is recognised in surplus or deficit over the expected average remaining service lives of participating employees. Actuarial gains or losses within the corridor are not recognised.

Gains or losses on the curtailment or settlement of a defined benefit plan is recognised when the entity is demonstrably committed to curtailment or settlement.

When it is virtually certain that another party will reimburse some or all of the expenditure required to settle a defined benefit obligation, the right to reimbursement is recognised as a separate asset. The asset is measured at fair value. In all other respects, the asset is treated in the same way as plan assets. In surplus or deficit, the expense relating to a defined benefit plan is presented as the net of the amount recognised for a reimbursement.

The amount recognised in the statement of financial position represents the present value of the defined benefit obligation as adjusted for unrecognised actuarial gains and losses and unrecognised past service costs, and reduces by the fair value of plan assets.

Any asset is limited to unrecognised actuarial losses and past service costs, plus the present value of available refunds and reduction in future contributions to the plan.

### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where the effect of time value of money is material, the amount of a provision is the present value of the expenditures expected to be required to settle the obligation.

The discount rate is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

Where discounting is used, the carrying amount of a provision increases in each period to reflect the passage of time. This increase is recognised as an interest expense.



# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

### 1.13 Provisions and contingencies (continued)

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

If an entity has a contract that is onerous, the present obligation (net of recoveries) under the contract is recognised and measured as a provision.

A constructive obligation to restructure arises only when an entity:

- has a detailed formal plan for the restructuring, identifying at least:
  - the activity/operating unit or part of a activity/operating unit concerned;
  - the principal locations affected;
  - the location, function, and approximate number of employees who will be compensated for services being terminated;
  - the expenditures that will be undertaken; and
  - when the plan will be implemented; and
- has raised a valid expectation in those affected that it will carry out the restructuring by starting to implement that plan or announcing its main features to those affected by it.

A restructuring provision includes only the direct expenditures arising from the restructuring, which are those that are both:

- necessarily entailed by the restructuring; and
- not associated with the ongoing activities of the municipality

No obligation arises as a consequence of the sale or transfer of an operation until the municipality is committed to the sale or transfer, that is, there is a binding arrangement.

After their initial recognition contingent liabilities recognised in entity combinations that are recognised separately are subsequently measured at the higher of:

- the amount that would be recognised as a provision; and
- the amount initially recognised less cumulative amortisation.

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in note 40.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

The municipality recognises a provision for financial guarantees and loan commitments when it is probable that an outflow of resources embodying economic benefits and service potential will be required to settle the obligation and a reliable estimate of the obligation can be made.

Determining whether an outflow of resources is probable in relation to financial guarantees requires judgement. Indications that an outflow of resources may be probable are:

- financial difficulty of the debtor;
- defaults or delinquencies in interest and capital repayments by the debtor;
- breaches of the terms of the debt instrument that result in it being payable earlier than the agreed term and the ability of the debtor to settle its obligation on the amended terms; and
- a decline in prevailing economic circumstances (e.g. high interest rates, inflation and unemployment) that impact on the ability of entities to repay their obligations.

Where a fee is received by the municipality for issuing a financial guarantee and/or where a fee is charged on loan commitments, it is considered in determining the best estimate of the amount required to settle the obligation at reporting date. Where a fee is charged and the municipality considers that an outflow of economic resources is probable, an municipality recognises the obligation at the higher of:

- the amount determined using in the Standard of GRAP on Provisions, Contingent Liabilities and Contingent Assets; and
- the amount of the fee initially recognised less, where appropriate, cumulative amortisation recognised in accordance with the Standard of GRAP on Revenue from Exchange Transactions.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rendering of services

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:

- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

#### Interest earned

Revenue arising from the use by others of entity assets yielding interest is recognised when:

- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

#### Prepaid Electricity

Prepaid electricity is estimated based on the average unit sales and rate per unit as at 30 June 2012 and 30 June 2013 based on the Contour Prepaid Electricity vending system.

#### Service charges from sewerage and sanitation

Service charges from sewerage and sanitation are based on the extent of the ERF and of sewerage connections on each developed property using the tariffs approved from Council and are levied monthly.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.14 Revenue from exchange transactions (continued)

#### Service charges relating to water and electricity

Service charges relating to electricity and water are based on consumption. Provisional estimates of consumption are made monthly when meter readings have not been performed. The provisional estimates of consumption are recognised as revenue when invoiced. Adjustments to provisional estimates of consumption are made in the invoicing period in which meters have been read. These adjustments are recognised as revenue in the invoicing period. Electricity meters in industrial areas are read at the end of each month and billed the following month. Premises with high-tension electricity supplies are read and billed monthly. Revenue from the sale of electricity prepaid meter cards is recognised at the point of sale. At reporting date, an estimate of the prepaid electricity consumed is made and revenue is adjusted accordingly. The estimate is based on trend analysis and historical data of electricity consumption. Revenue arising from the consumption of electricity and water in the month of June is fully accounted for whether invoiced or not. Revenue arising from the application of the approved tariffs, fees and charges is generally recognised when the relevant service is rendered.

#### Refuse removal

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

#### Rental income

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff. Tariffs are determined per category of property usage and are levied on a monthly basis.

### 1.15 Revenue from non-exchange transactions

Non-exchange transactions are defined as transactions where the entity receives value from another entity without directly giving approximately equal value in exchange.

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

#### Measurement

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

#### Rates, including collection charges and penalties interest

Revenue from rates, including collection charges and penalty interest, is recognised when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the amount of the revenue can be measured reliably; and
- there has been compliance with the relevant legal requirements.

Changes to property values during a reporting period are valued by a suitably qualified valuator and adjustments are made to rates revenue, based on a time proportion basis. Adjustments to rates revenue already recognised are processed or additional rates revenue is recognised.

#### Fines

Fines are recognised when it is probable that future economic benefits will flow to the entity, the costs can be reliably measured and all restrictions have been complied with. Fines constitute both spot fines and summonses. Revenue from spot fines is recognised when payment is received and the revenue from the issuing of summonses is recognised when collected. Due to the various legal processes that can apply to summonses and the inadequate information available from the courts, it is not possible to measure this revenue in the invoicing period.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.15 Revenue from non-exchange transactions (continued)

#### Levies

Levies are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the amount of the revenue can be measured reliably.

Levies are based on declarations completed by levy payers. The estimate of levies revenue when a levy payer has not submitted a declaration are based on the following factors:

- the extent and success of procedures to investigate the non-submission of a declaration by defaulting levy payers;
- internal records maintained of historical comparisons of estimated levies with actual levies received from individual levy payers;
- historical information on declarations previously submitted by defaulting levy payers; and
- the accuracy of the database of levy payers as well as the frequency by which it is updated for changes.

Changes to estimates made when more reliable information becomes available are processed as an adjustment to levies revenue.

#### Government grants

Government grants are recognised as revenue when:

- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality,
- the amount of the revenue can be measured reliably, and
- to the extent that there has been compliance with any restrictions associated with the grant.

The municipality assesses the degree of certainty attached to the flow of future economic benefits or service potential on the basis of the available evidence. Certain grants payable by one level of government to another are subject to the availability of funds. Revenue from these grants is only recognised when it is probable that the economic benefits or service potential associated with the transaction will flow to the entity. An announcement at the beginning of a financial year that grants may be available for qualifying entities in accordance with an agreed programme may not be sufficient evidence of the probability of the flow. Revenue is then only recognised once evidence of the probability of the flow becomes available.

Restrictions on government grants may result in such revenue being recognised on a time proportion basis. Where there is no restriction on the period, such revenue is recognised on receipt or when the Act becomes effective, whichever is earlier.

When government remit grants on a re-imbursement basis, revenue is recognised when the qualifying expense has been incurred and to the extent that any other restrictions have been complied with.

#### Revenue from public contributions and donations

Revenue from public contributions and donations is recognised when all conditions associated with the contribution have been met or, where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment qualifies for recognition and first becomes available for use by the entity. Where public contributions have been received but the entity has not met the related conditions that would entitle it to the revenue, a liability is recognised.

#### Property rates

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Council applies a differential rating system i.e business, farming and residential properties. In terms of this system, assessment rates are levied on the market value in respect of properties. Rebates are granted according to the use of the property concerned.

#### Collection charges

Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid bills is recognised on a time proportion basis.

### 1.16 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.17 Borrowing costs

It is inappropriate to capitalise borrowing costs when, and only when, there is clear evidence that it is difficult to link the borrowing requirements of an entity directly to the nature of the expenditure to be funded i.e. capital or current.

Borrowing costs are recognised as an expense in the period in which they are incurred.

### 1.18 Unauthorised expenditure

Unauthorised expenditure means:

- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.19 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the year that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Irregular expenditure

Irregular expenditure that was incurred and identified during the current financial year and for which condonement is being awaited at year end must be recorded in the irregular expenditure register. No further action is required with the exception of updating the note to the financial statements.

Where irregular expenditure was incurred in the previous financial year and is only condoned in the following financial year, the register and the disclosure note to the financial statements must be updated with the amount condoned.

Irregular expenditure that was incurred and identified during the current financial year and which was not condoned by the National Treasury or the relevant authority must be recorded appropriately in the irregular expenditure register. If liability for the irregular expenditure can be attributed to a person, a debt account must be created if such a person is liable in law. Immediate steps must thereafter be taken to recover the amount from the person concerned. If recovery is not possible, the accounting officer or accounting authority may write off the amount as debt impairment and disclose such in the relevant note to the financial statements. The irregular expenditure register must also be updated accordingly. If the irregular expenditure has not been condoned and no person is liable in law, the expenditure related thereto must remain against the relevant programme/expenditure item, be disclosed as such in the note to the financial statements and updated accordingly in the irregular expenditure register.

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity's supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.21 Use of estimates

The preparation of annual financial statements in conformity with Standards of GRAP requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the municipality's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the annual financial statements are disclosed in the relevant sections of the annual financial statements. Although these estimates are based on management's best knowledge of current events and actions they may undertake in the future, actual results ultimately may differ from those estimates.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Accounting Policies

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### 1.22 Revaluation reserve

The surplus arising from the revaluation of property, plant and equipment is credited to a non-distributable reserve. The revaluation surplus is realised as revalued buildings are depreciated, through a transfer from the revaluation reserve to the accumulated surplus/deficit. On disposal, the net revaluation surplus is transferred to the accumulated surplus/deficit while gains or losses on disposal, based on revalued amounts, are credited or charged to the statement of financial performance.

### 1.23 Investments

Where the carrying amount of an investment is greater than the estimated recoverable amount, it is written down immediately to its recoverable amount and an impairment loss is charged to the statement of financial performance.

### 1.24 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

### 1.25 Budget information

Municipality are typically subject to budgetary limits in the form of appropriations or budget authorisations (or equivalent), which is given effect through authorising legislation, appropriation or similar.

General purpose financial reporting by municipality shall provide information on whether resources were obtained and used in accordance with the legally adopted budget.

The approved budget is prepared on a cash basis and presented by economic classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2012/07/01 to 2013/06/30.

The annual financial statements and the budget are on the same basis of accounting therefore a comparison with the budgeted amounts for the reporting period have been included in the Statement of comparison of budget and actual amounts.

### 1.26 Related parties

The municipality operates in an economic sector currently dominated by entities directly or indirectly owned by the South African Government. As a consequence of the constitutional independence of the three spheres of government in South Africa, only entities within the national sphere of government are considered to be related parties.

Management are those persons responsible for planning, directing and controlling the activities of the municipality, including those charged with the governance of the municipality in accordance with legislation, in instances where they are required to perform such functions.

Close members of the family of a person are considered to be those family members who may be expected to influence, or be influenced by, that management in their dealings with the municipality.

Only transactions with related parties not at arm's length or not in the ordinary course of business are disclosed.

- Eskom
- Vhembe District Municipality
- SALGA
- Bargaining Council

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>2. Inventories</b>		
Inventories	6,391,053	4,102,087
Water	661,116	560,488
Water inventory written off	(661,116)	(560,488)
	6,391,053	4,102,087
Slow moving inventory written down	(87,761)	(30,580)
	<b>6,303,292</b>	<b>4,071,507</b>
<b>3. Receivables from exchange transactions</b>		
Trade debtors	-	3
Other debtors	1,519,673	-
Deposit paid on office rental	-	50,000
	<b>1,519,673</b>	<b>50,003</b>
<b>4. Receivables from non-exchange transactions</b>		
Other debtors	18,316,229	18,566,239
Vhembe district: water transactions	14,026,852	-
	<b>32,343,081</b>	<b>18,566,239</b>
<b>Fair value of receivables from non-exchange transactions</b>		
There is no material difference between the fair value of other receivables from non exchange transactions and their book value.		
<b>5. Prepayments</b>		
The prepayments are paid for DBSA loan, the loan is unsecured, bears interest at 9.86% and is repayable on 31 March 2018.		
<b>6. Consumer debtors</b>		
<b>Gross balances</b>		
Rates	48,143,010	39,831,963
Electricity	69,162,529	58,221,069
Refuse	16,459,675	15,329,913
Other services	85,676,756	76,765,025
	<b>219,441,970</b>	<b>190,147,970</b>
<b>Less: Provision for doubtful debts</b>		
Rates	(37,936,054)	(34,653,407)
Electricity	(40,593,857)	(30,903,132)
Refuse	(14,615,452)	(14,002,399)
Other services	(70,309,470)	(57,330,820)
	<b>(163,454,833)</b>	<b>(136,889,758)</b>
<b>Net balance</b>		
Rates	10,206,956	5,178,556
Electricity	28,568,672	27,317,937
Refuse	1,844,223	1,327,514
Other services	15,367,286	19,434,205
	<b>55,987,137</b>	<b>53,258,212</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>6. Consumer debtors (continued)</b>		
<b>Rates</b>		
Current (0 -30 days)	5,794,425	3,103,186
31 - 60 days	1,103,493	1,071,688
61 - 90 days	1,079,559	984,570
91 - 120 days	1,025,581	34,639,288
121 - 365 days	39,139,952	-
	<b>48,143,010</b>	<b>39,798,732</b>
<b>Electricity</b>		
Current (0 -30 days)	19,533,671	18,118,637
31 - 60 days	2,680,466	3,878,352
61 - 90 days	1,886,605	3,763,060
91 - 120 days	2,220,582	30,830,570
121 - 365 days	42,841,205	-
	<b>69,162,529</b>	<b>56,590,619</b>
<b>Refuse</b>		
Current (0 -30 days)	749,573	790,404
31 - 60 days	272,071	263,213
61 - 90 days	256,033	245,153
91 - 120 days	252,033	245,153
121 - 365 days	14,929,965	13,996,534
	<b>16,459,675</b>	<b>15,540,457</b>
<b>Other services</b>		
Current (0 -30 days)	5,644,484	8,243,094
31 - 60 days	1,964,960	1,635,386
61 - 90 days	1,933,915	2,878,028
91 - 120 days	1,999,525	85,227,816
121 - 365 days	74,133,872	-
	<b>85,676,756</b>	<b>97,984,324</b>



# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

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### 6. Consumer debtors (continued)

#### Summary of debtors by customer classification

##### Residential

Current (0 -30 days)	27,335,802	26,767,419
31 - 60 days	4,895,612	5,934,820
61 - 90 days	4,249,903	6,311,750
91 - 120 days	4,719,680	153,877,184
121 - 365 days	156,708,412	-
	197,909,409	192,891,173
Less: Allowance for impairment	(156,708,412)	(131,479,501)
	<b>41,200,997</b>	<b>61,411,672</b>

##### Business

Current (0 -30 days)	3,525,181	2,958,419
31 - 60 days	471,702	380,183
61 - 90 days	480,959	441,590
91 - 120 days	445,081	6,018,761
121 - 365 days	6,799,364	-
	11,722,287	9,798,953
Less: Allowance for impairment	(6,279,098)	(5,410,257)
	<b>5,443,189</b>	<b>4,388,696</b>

##### National and provincial government

Current (0 -30 days)	2,702,926	529,558
31 - 60 days	763,612	533,636
61 - 90 days	499,450	1,117,471
91 - 120 days	436,544	4,798,262
121 - 365 days	5,462,814	-
	<b>9,865,346</b>	<b>6,978,927</b>

##### Total

Current (0 -30 days)	33,563,909	30,255,321
31 - 60 days	6,130,929	6,848,639
61 - 90 days	5,230,312	7,870,811
91 - 120 days	5,601,305	145,173,199
121 - 365 days	168,915,515	-
	219,441,970	190,147,970
Less: Allowance for impairment	(163,454,833)	(136,889,758)
	<b>55,987,137</b>	<b>53,258,212</b>

##### Less: Allowance for impairment

121 - 365 days	(163,454,833)	(136,889,758)
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#### Reconciliation of provision for doubtful debts

Opening balance	136,889,758	128,898,256
Debts written off against provision	(1,369,328)	(32,030,822)
Contribution to the provision	27,934,402	63,958,120
Reversal of provision for water and sewer	-	(23,935,796)
	<b>163,454,832</b>	<b>136,889,758</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>7. Cash and cash equivalents</b>		
Cash and cash equivalents consist of:		
Bank balances	2,381,532	-
Short-term deposits	7,310,810	1,998
Other cash and cash equivalents	18,700	13,200
Bank overdraft	-	(5,408,759)
	<b>9,711,042</b>	<b>(5,393,561)</b>
Current assets	9,711,042	15,198
Current liabilities	-	(5,408,759)
	<b>9,711,042</b>	<b>(5,393,561)</b>

### The municipality had the following bank accounts

Account number / description	Bank statement balances			Cash book balances		
	30 June 2013	30 June 2012	30 June 2011	30 June 2013	30 June 2012	30 June 2011
FNB BANK - Current Account - 623-0832-9988	2,272,136	766,434	-	2,381,532	(6,224,568)	-
FNB BANK - Investment Account - 623-0833-0779	7,310,810	1,000	-	-	1,998	-
FNB BANK - Account Type - Investment Account - 624-0465-0435	502,744	-	-	-	-	-
<b>Total</b>	<b>10,085,690</b>	<b>767,434</b>	<b>-</b>	<b>2,381,532</b>	<b>(6,222,570)</b>	<b>-</b>

### 8. Investment property

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Investment property	52,491,463	-	52,491,463	52,491,463	-	52,491,463

### Reconciliation of investment property - 2013

	Opening balance	Total
Investment property	52,491,463	52,491,463

### Reconciliation of investment property - 2012

	Opening balance	Fair value adjustments	Total
Investment property	604,753	51,886,710	52,491,463

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment

	2013			2012		
	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value	Cost / Valuation	Accumulated depreciation and accumulated impairment	Carrying value
Land and buildings	327,580,901	(14,224,017)	313,356,884	326,257,571	(10,909,547)	315,348,024
Infrastructure assets	1,862,286,121	(493,696,996)	1,368,589,125	1,801,361,620	(396,562,866)	1,404,798,754
Community assets	46,818,151	(16,377,301)	30,440,850	40,221,491	(15,122,495)	25,098,996
Other assets	75,614,349	(29,772,967)	45,841,382	57,781,742	(23,016,397)	34,765,345
Finance lease assets	26,102,918	(12,284,357)	13,818,561	26,363,790	(8,590,365)	17,773,425
Heritage assets	520,979	-	520,979	520,979	-	520,979
<b>Total</b>	<b>2,338,923,419</b>	<b>(566,355,638)</b>	<b>1,772,567,781</b>	<b>2,252,507,193</b>	<b>(454,201,670)</b>	<b>1,798,305,523</b>

### Reconciliation of property, plant and equipment - 2013

	Opening balance	Additions	Additions under construction	Depreciation	Impairment loss	Total
Land and buildings	315,348,024	49,108	1,250,141	(3,290,389)	-	313,356,884
Infrastructure assets	1,404,798,754	-	60,924,500	(97,095,620)	(38,509)	1,368,589,125
Community assets	25,098,996	6,596,661	-	(1,000,775)	(254,032)	30,440,850
Other assets	34,765,345	17,832,604	-	(6,756,567)	-	45,841,382
Finance lease assets	17,773,425	-	-	(3,954,864)	-	13,818,561
Heritage assets	520,979	-	-	-	-	520,979
<b>Total</b>	<b>1,798,305,523</b>	<b>24,478,373</b>	<b>62,174,641</b>	<b>(112,098,215)</b>	<b>(292,541)</b>	<b>1,772,567,781</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### 9. Property, plant and equipment (continued)

#### Reconciliation of property, plant and equipment - 2012

	Opening balance	Additions	Additions under construction	Disposals	Correction of errors	Depreciation	Impairment loss	Total
Land and buildings	175,925,866	567,500	184,620	-	142,258,328	(2,074,820)	(1,513,470)	315,348,024
Infrastructure assets	1,288,722,872	23,905,509	38,085,050	(21,826,082)	231,570,948	(107,859,102)	(47,800,441)	1,404,798,754
Community assets	65,167,637	2,344,637	3,129,264	-	(39,224,335)	(1,184,103)	(5,134,104)	25,098,996
Other assets	23,424,586	2,207,660	-	(2,963,084)	17,919,877	(5,456,758)	(366,936)	34,765,345
Finance lease assets	11,989,832	-	-	12,303,881	-	(6,520,288)	-	17,773,425
Heritage assets	520,979	-	-	-	-	-	-	520,979
	<b>1,565,751,772</b>	<b>29,025,306</b>	<b>41,398,934</b>	<b>(12,485,285)</b>	<b>352,524,818</b>	<b>(123,095,071)</b>	<b>(54,814,951)</b>	<b>1,798,305,523</b>

A register containing the information required by section 63 of the Municipal Finance Management Act is available for inspection at the registered office of the municipality.

### 10. Intangible assets

	2013		2012	
	Cost / Valuation	Accumulated amortisation and impairment	Cost / Valuation	Accumulated amortisation and impairment
Intangible assets	41,849	(27,923)	13,926	41,849
				(20,942)
				20,907

#### Reconciliation of intangible assets - 2013

	Opening balance	Amortisation	Total
Intangible assets	20,907	(6,981)	13,926

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012	
<b>10. Intangible assets (continued)</b>			
<b>Reconciliation of intangible assets - 2012</b>			
	Opening balance	Amortisation	Total
Intangible assets	27,887	(6,980)	20,907
<b>11. Borrowings</b>			
<b>Annuity loans</b>			
Infrastructure finance corporation limited (INCA) The loan is unsecured, bears interest at 11.47% and repayable on 30 June 2014.		2,020,668	3,828,081
Development bank of South Africa(DBSA) 1 The loan is unsecured, bears interest at 9.86% and repayable on 31 March 2018.		5,392,143	6,192,434
Development bank of South Africa (DBSA) 2 The loan is unsecured, bears interest at 5% and repayable on 31 March 2018.		1,734,406	2,032,759
		<b>9,147,217</b>	<b>12,053,274</b>
<b>Non-current liabilities</b>			
At amortised cost		7,126,549	10,245,861
<b>Current liabilities</b>			
At amortised cost		2,020,668	1,807,413
<b>12. Finance lease liability</b>			
<b>Minimum lease payments due</b>			
- within one year		5,228,267	5,026,778
- in second to fifth year inclusive		20,268,095	20,779,179
- later than five years		2,906,008	7,623,554
		28,402,370	33,429,511
less: future finance charges		(7,372,747)	(9,525,738)
<b>Present value of minimum lease payments</b>		<b>21,029,623</b>	<b>23,903,773</b>
<b>Present value of minimum lease payments due</b>			
- within one year		3,373,337	2,873,932
- in second to fifth year inclusive		14,840,718	13,989,410
- later than five years		2,815,568	7,040,431
		<b>21,029,623</b>	<b>23,903,773</b>
Non-current liabilities		17,656,286	21,029,841
Current liabilities		3,373,337	2,873,932
		<b>21,029,623</b>	<b>23,903,773</b>

The average lease term is 5 years and the average effective borrowing rate was 10% (2012: 10%).

Interest rates are fixed at the contract date. All leases escalate between 6% and 10% p.a and no arrangements have been entered into for contingent rent.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>13. Operating lease liability</b>		
<b>Minimum lease payments due</b>		
Within one year	341,400	310,000
In second to fifth year inclusive	242,800	584,200
	<b>584,200</b>	<b>894,200</b>
<b>14. Payables from exchange transactions</b>		
Vhembe district municipality (water collections)	16,275	-
Accruals	91,060,437	50,720,973
Retentions	7,914,062	7,099,207
Debtors with credit balances	2,744,022	9,068,034
Other Creditors	4,398,297	3,878,357
Other Creditors	3,102,345	-
	<b>109,235,438</b>	<b>70,766,571</b>
There is no material difference between the fair value of payables from exchange transactions and their book value.		
<b>15. VAT payable</b>		
VAT payables	4,008,815	10,954,652
VAT is payable on the receipts basis. Vat is paid over to the receiver of revenue only once the payment is received from debtors.		
<b>16. Current portion of unspent conditional grants and receipts</b>		
<b>Unspent conditional grants and receipts comprises of:</b>		
<b>Unspent conditional grants and receipts</b>		
MIG	32,032,658	27,414,583
INEP	384,504	2,610,551
DWAF grant	2,567,495	2,567,495
VDM electrification grant	1,297,297	1,297,297
Finance management grant	50,483	993,454
Municipal system improvement grant	-	533,976
PHP grant	413,643	414,495
Department of sports, arts and culture grant	207,369	207,369
VDM refuse removal truck grant	56,418	56,418
Drought relief grant	33,801	33,801
VDM graveyards grant	645	645
Electricity efficiency demand side management	2,929,133	-
Expanded public works programmes	715,915	-
Disaster management grant	1,460,000	-
	<b>42,149,361</b>	<b>36,130,084</b>
<b>Movement during the year</b>		
Balance at the beginning of the year	36,130,084	24,379,639
Additions during the year	85,086,000	11,750,445
Income recognition during the year	(79,066,723)	-
	<b>42,149,361</b>	<b>36,130,084</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

### 17. Provisions

#### Reconciliation of provisions - 2013

	Opening Balance	Utilised	Movement	Total
Rehabilitation of landfill site	5,497,139	-	467,254	5,964,393
Provision for leave	10,935,766	(766,762)	5,641,108	15,810,112
Provision for bonuses Section 57 Managers	449,327	-	20,505	469,832
	<b>16,882,232</b>	<b>(766,762)</b>	<b>6,128,867</b>	<b>22,244,337</b>

#### Reconciliation of provisions - 2012

	Opening Balance	Movement	Total
Rehabilitation of landfill site	4,930,865	566,274	5,497,139
Provision for leave	14,652,270	(3,716,504)	10,935,766
Provision for bonuses Section 57 Managers	471,091	(21,764)	449,327
	<b>20,054,226</b>	<b>(3,171,994)</b>	<b>16,882,232</b>

Non-current liabilities	5,964,393	5,497,139
Current liabilities	16,279,944	11,385,093
	<b>22,244,337</b>	<b>16,882,232</b>

#### Provision for rehabilitation of landfill site

The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate land fill sites used for waste disposal. It is calculated as the present value of future obligation, discounted at prime interest rate of 8.5% over an estimated useful life of 1 year. Rehabilitation cost is assumed to increase at inflation rate of 7.10%. The payment of expenditures relating to rehabilitation is expected to occur after the 30th June 2013.

### 18. Consumer deposits

#### Electricity

Opening balance	10,087,699	-
Additional deposits in the current year	1,080,186	10,087,699
	<b>11,167,885</b>	<b>10,087,699</b>

Guarantees held in lieu of consumer deposits.

### 19. Deferred income

The deferred income was estimated based on the average unit sales and rate per unit as at 30 June 2012 and 2013 based on the Contour Prepaid Electricity vending system.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand

2013

2012

### 20. Employee benefit obligations

#### Reconciliation and projection of the unfunded accrued liability

Opening balance	(12,231,859)	(11,704,626)
Current services cost	(1,648,596)	(1,531,234)
Interest cost	(885,059)	(828,184)
Actuarial gain/loss	(609,296)	-
Expected employer benefit	1,394,453	1,832,185
	<b>(13,980,357)</b>	<b>(12,231,859)</b>

#### Unfunded accrued liability

Projected accrued liability	13,371,052	12,231,850
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The amounts recognised in the statement of financial position are as follows:

#### Carrying value

Opening balance	(12,231,850)	(11,704,617)
Current service cost	(1,648,596)	(1,531,234)
Interest cost	(885,059)	(828,184)
Expected employer benefit vestings	1,394,453	1,832,185
Actuarial (Gain)/Loss recognised in profit and loss	(609,296)	-
	<b>(13,980,348)</b>	<b>(12,231,850)</b>

The fair value of plan assets includes:

#### Calculation of actuarial gains and losses

#### Key assumptions used

Assumptions used at the reporting date:

Discount rates used	7.09 %	7.66 %
General salary inflation	6.73 %	6.24 %
Net effective discount rate	0.33 %	1.34 %

The low net discount rate indicates that expected salary inflation over the term of the liabilities is almost equal to the return earned on government bonds. The salaries used in the valuation include an assumed increase on 1 July 2013 of 6.84% as per the SALGBC Circular No 4/2013. The next salary increase was assumed to take place in July 2014.

### 21. Revaluation reserve

Opening balance	1,101,246,128	655,325,337
Change during the year	-	446,053,988
Movement for the year	-	(133,197)
	<b>1,101,246,127</b>	<b>1,101,246,128</b>



# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>22. Revenue</b>		
Service charges	211,360,159	222,324,610
Rental of facilities and equipment	162,944	357,495
Interest earned - outstanding receivables	16,356,985	16,694,669
Licences and permits	12,197,122	11,649,354
Other income	8,251,773	11,552,116
Interest received - investment	1,339,096	1,495,277
Property rates	28,090,803	26,433,850
Government grants & subsidies	310,533,726	254,267,868
Fines	2,618,528	1,703,645
	<b>590,911,136</b>	<b>546,478,884</b>
<b>The amount included in revenue arising from exchanges of goods or services are as follows:</b>		
Service charges	211,360,159	222,324,610
Rental of facilities and equipment	162,944	357,495
Interest earned- outstanding receivables	16,356,985	16,694,669
Licences and permits	12,197,122	11,649,354
Other income	8,251,773	11,552,116
Interest received - investment	1,339,096	1,495,277
	<b>249,668,079</b>	<b>264,073,521</b>
<b>The amount included in revenue arising from non-exchange transactions is as follows:</b>		
<b>Taxation revenue</b>		
Property rates	28,090,803	26,433,850
<b>Transfer revenue</b>		
Government grants & subsidies	310,533,726	254,267,868
Fines	2,618,528	1,703,645
	<b>341,243,057</b>	<b>282,405,363</b>
<b>23. Property rates</b>		
<b>Rates received</b>		
Residential	24,969,389	23,672,812
Commercial	9,773,979	8,957,004
State	2,224,404	2,206,612
Less: Revenue forgone (Residential)	(8,876,969)	(8,402,578)
	<b>28,090,803</b>	<b>26,433,850</b>
<b>Valuations</b>		
Residential	4,424,876,619	4,461,163,901
Commercial	1,134,545,968	1,228,860,108
State	2,157,168,800	1,929,719,700
Municipal	251,389,100	329,748,200
	<b>7,967,980,487</b>	<b>7,949,491,909</b>

The last valuation came into effect on 01 July 2008. A general rate of 0.005 (2012: 0.005) is applied to property valuation (Market Value) to determine assessment rates. Rebates are granted to residential and state property owners. Rates are levied on a monthly basis to property owners.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>24. Service charges</b>		
Sale of electricity	205,020,038	214,777,949
Refuse removal	6,340,121	7,546,661
	<b>211,360,159</b>	<b>222,324,610</b>
<b>25. Government grants and subsidies</b>		
<b>Operating grants</b>		
Equitable share	231,457,000	203,577,000
VDM electrification grant	-	1,090,401
Electricity efficiency demand side management	2,070,867	-
Expanded public works programmes	1,210,085	-
Intergrated national electrification programme	9,226,047	3,499,924
Finance management grant	2,442,971	1,829,725
Municipal systems management grant	1,343,979	800,003
PHP grant	852	6,721
Grants received from district municipalities	-	1,339,313
	<b>247,751,801</b>	<b>212,143,087</b>
<b>Capital grants</b>		
Municipal Infrastructure Grant (MIG)	62,781,925	42,124,781
	<b>62,781,925</b>	<b>42,124,781</b>
	<b>310,533,726</b>	<b>254,267,868</b>

### Equitable Share

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

All registered indigents receive a monthly subsidy of R8,876,969 (2012: R 8,402,578), which is funded from the grant.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>26. General expenses</b>		
Advertising	321,539	325,051
Assets expensed	(1,286,141)	24,848,377
Auditors remuneration	5,361,947	5,470,179
Bank charges	719,310	754,769
Consulting and professional fees	4,589,610	8,594,419
Consumables	2,226,702	1,845,761
Delivery expenses	1,186	24,527
Departmental consumption	461,259	533,932
Dumping site	-	493,086
Fuel and oil	8,051,589	7,589,461
IT expenses	36,125	40,824
Indigent policy	6,690,140	6,053,702
Insurance	1,898,522	1,962,222
Lease rentals on operating lease	331,501	110,467
Levies	1,606,735	1,459,521
Non asset items	1,281,834	3,267,510
Other expenses	25,894,628	17,461,352
Postage and courier	39,767	40,064
Printing and stationery	2,716,844	2,819,772
Royalties and license fees	458,438	281,422
Security (Guarding of municipal property)	13,929,355	12,241,369
Subscriptions and membership fees	1,677,466	563,796
Subscriptions and publications	2,368,888	3,347,971
Telephone and fax	2,297,183	2,364,663
Training	2,659,231	1,585,256
Travel - local	2,803,509	2,820,603
Uniforms	378,902	667,871
Water transactions write off	661,116	1,195,253
	<b>88,177,185</b>	<b>108,763,200</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>27. Employee related costs</b>		
Basic	119,783,468	103,372,690
Bonus	9,549,557	9,680,707
Medical aid - company contributions	9,661,404	9,152,224
UIF	1,056,894	1,024,278
Other payroll levies	54,567	41,347
Leave pay provision charge	7,214,828	(1,896,392)
Post-employment benefits - Pension - Defined contribution plan	25,606,923	24,871,947
Travel, motor car, accommodation, subsistence and other allowances	8,149,910	7,036,680
Overtime payments	12,198,910	15,180,374
Long-service awards	1,648,596	1,531,234
Housing benefits and allowances	219,291	218,054
Standby allowance	1,038,891	1,369,301
Group life insurance	484,769	391,797
	<b>196,668,008</b>	<b>171,974,241</b>
<b>Remuneration of municipal manager</b>		
Annual Remuneration	590,000	487,333
Group life	11,800	-
Contributions to UIF, Medical and Pension Funds	170,225	62,040
Travel, motor car, accommodation, subsistence and other allowance	211,308	324,951
	<b>983,333</b>	<b>874,324</b>
<b>Remuneration of chief finance officer</b>		
Annual Remuneration	380,026	337,144
Contributions to UIF, Medical and Pension Funds	66,879	70,972
Travel, motor car, accommodation, subsistence and other allowance	186,472	162,668
Other back pay	-	100,253
	<b>633,377</b>	<b>671,037</b>
<b>Remuneration of director technical services</b>		
Annual Remuneration	448,124	473,996
Contributions to UIF, Medical and Pension Funds	92,970	96,258
Travel, motor car, accommodation, subsistence and other allowance	205,779	262,254
Other backpay	27,255	-
	<b>774,128</b>	<b>832,508</b>
<b>Remuneration of director corporate services</b>		
Annual Remuneration	481,830	465,761
Contributions to UIF, Medical and Pension Funds	91,652	86,925
Travel, motor car, accommodation, subsistence and other allowance	229,567	237,052
Other backpay	26,781	-
	<b>829,830</b>	<b>789,738</b>
<b>Remuneration of director planning and development</b>		
Annual Remuneration	481,830	465,761
Contributions to UIF, Medical and Pension Funds	61,942	59,718
Travel, motor car, accommodation, subsistence and other allowance	259,278	265,699
Other backpay	26,781	-
	<b>829,831</b>	<b>791,178</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>27. Employee related costs (continued)</b>		
<b>Remuneration of director community services</b>		
Annual Remuneration	356,889	465,761
Performance Bonuses	-	84,120
Contributions to UIF, Medical and Pension Funds	45,806	59,718
Travel, motor car, accommodation, subsistence and other allowance	192,120	306,758
Leave payout	27,778	-
Other backpay	25,229	-
	<b>647,822</b>	<b>916,357</b>
<b>28. Remuneration of councillors</b>		
Mayor	678,925	637,103
Speaker	549,200	516,556
Councillors	17,242,111	15,645,988
	<b>18,470,236</b>	<b>16,799,647</b>
<b>29. Provision for doubtful debts</b>		
Provision for doubtful debt	27,934,403	40,022,325
<b>30. Repairs and maintenance</b>		
Repairs and maintenance during the year	14,865,252	19,993,650
<b>31. Investment revenue</b>		
<b>Interest revenue</b>		
Bank	1,339,096	1,495,277
<b>32. Interest earned- outstanding receivables</b>		
Receivables	16,356,985	16,694,669
<b>33. Interest earned- external investments</b>		
Bank	1,339,096	1,495,277
<b>34. Depreciation and amortisation</b>		
Property, plant and equipment	112,129,281	123,095,071
<b>35. Finance costs</b>		
Finance leases	-	5,198,093
Current borrowings	5,240,364	(386,316)
Other interest paid	-	828,184
	<b>5,240,364</b>	<b>5,639,961</b>

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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### 36. Auditors' remuneration

Fees	5,361,947	5,470,179
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### 37. Bulk purchases

Electricity	156,610,984	141,762,394
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Included in the electricity bulk purchases is the 11% which relate to distribution losses. Makhado Municipality gets billed by Eskom on a monthly basis for electricity used/or given to Makhado based on readings. Therefore the amount paid to/billed by Eskom includes electricity losses and the losses were R24 902 348 (2012: R24 902 348).

### 38. Cash generated from operations

Deficit	(29,248,877)	(136,386,556)
<b>Adjustments for:</b>		
Depreciation and amortisation	112,129,281	123,095,071
Finance costs - Finance leases	-	5,198,093
Impairment deficit	292,541	54,814,951
Debt impairment	27,934,403	40,022,325
Movements in operating lease assets and accruals	(1,567)	22,967
Movements in retirement benefit assets and liabilities	1,748,498	12,231,850
Movements in provisions	5,362,105	(3,171,994)
Other non-cash items	(1,272,852)	8,080,473
<b>Changes in working capital:</b>		
Inventories	(2,231,785)	479,775
Receivables from exchange transactions	(1,469,676)	20,618,115
Other receivables from non-exchange transactions	(13,776,842)	23,999,528
Consumer debtors	(30,663,328)	(93,280,537)
Prepayments	66,171	(66,171)
Payables from exchange transactions	38,468,867	9,739,195
VAT	(6,945,837)	2,224,656
Current portion of unspent conditional grants and receipts	6,019,277	11,750,446
	<b>106,410,379</b>	<b>79,372,187</b>

### 39. Commitments

#### Authorised capital expenditure

##### Already contracted for

• Infrastructure-Roads	73,137,823	14,115,682
• Infrastructure-Electricity supply	3,405,647	28,605,399
• Community halls	17,429,584	2,307,873
• Other	2,345,572	2,292,531
	<b>96,318,626</b>	<b>47,321,485</b>

This committed expenditure relates to plant and equipment and will be financed by available bank facilities, retained surpluses and existing cash resources.

### 40. Contingencies

Litigations is in process against the municipality relating to a dispute with defendants in the following cases, should the judgement or ruling be in favour of the defendants the municipality will have to pay the estimated damages as indicated below

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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### 41. Prior period errors

#### VAT

The vat balance for the 2012 financial statements has been restated to agree to the South African Revenue Services vat statement.

#### Property, plant and equipment

In 2012 errors were made in the calculation of depreciation for property, plant and equipment. The comparative amount for 2013 has been restated.

#### Prepaid Electricity

The deferred income estimate for prepaid electricity in the 2012 financial statements was not raised, the effect of this has been adjusted as a prior period error.

#### Receivables from non exchange transactions

Water transactions were included in the receivables in the 2012 financial year which were subsequently written off due to the water service level agreement with the district municipality.

#### Payables from non exchange transactions

Water transactions were included in the payables in the 2012 financial year which were subsequently written off due to the water service level agreement by the district municipality.

#### Finance leases

A profit on derecognition of finance lease was incorrectly raised in the 2012 financial year. Subsequently a correction was made on the finance lease accounting treatment relating to deferred finance charges and the finance lease liability.

#### Bank and Cash

During the financial year 2012 interest earned on the primary account was not accounted for.

The comparative amounts affected the accumulated surplus / (deficit) as at 30 June 2012, and has been restated as follows.

#### Statement of financial position

<b>Accumulated surplus / (deficit) for the year as previously reported</b>	- 622,745,321
Receivables from exchange transactions decreased with	- (46,730,965)
Property plant and equipment decreased with	- (47,462,547)
Finance lease liability decreased with	- 10,242,657
Bank overdraft decreased with	- 809,340
Payables from exchange transactions decreased with	- 92,859,818
Vat payable increased with	- (5,039,781)
Other Liabilities decreased with	- 583,114
Revaluation surplus increased with	- (850,760)
<b>Restated accumulated surplus/ (deficit) opening balance</b>	- 627,156,197

### 42. Comparative figures

Certain comparative figures have been restated as per note 41 above.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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### 43. Risk management

#### Liquidity risk

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality's financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

At 30 June 2013	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	2,020,668	-	7,126,549	-
Finance lease liability	3,373,337	17,656,286	-	-
Trade and other payables	107,942,402	-	-	-
At 30 June 2012	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years
Borrowings	1,807,413	2,020,667	-	8,225,193
Finance lease liability	2,269,154	-	21,306,289	10,555,757
Trade and other payables	242,013,137	-	-	-

#### Credit risk

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

### 44. Fruitless and wasteful expenditure

Opening balance	1,100,631	930,235
Fruitless and wasteful expenditure current year	1,485,480	170,396
	<b>2,586,111</b>	<b>1,100,631</b>

### 45. Irregular expenditure

Opening balance	33,990,918	821,257
Add: Irregular Expenditure - current year	5,321,649	33,169,661
	<b>39,312,567</b>	<b>33,990,918</b>



# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>46. Additional disclosure in terms of Municipal Finance Management Act</b>		
<b>Contributions to organised local government</b>		
Opening balance	-	520,996
Current year subscription	1,633,296	1,628,296
Amount paid - current year	(1,633,296)	(1,628,296)
Amount paid - previous years	-	(520,996)
	-	-
<b>Audit fees</b>		
Current year audit fee	5,361,947	5,470,171
Amount paid - current year	(5,361,947)	(5,470,171)
	-	-
<b>PAYE and UIF</b>		
Current year payroll deductions	28,139,324	25,497,575
Amount paid - current year	(28,139,324)	(25,497,575)
	-	-
<b>Pension and Medical Aid Deductions</b>		
Current year payroll deductions and council contributions	50,913,978	46,690,015
Amount paid - current year	(50,913,978)	(46,690,015)
	-	-
<b>VAT</b>		
VAT payable	4,008,815	10,954,652
All VAT returns have been submitted by the due date throughout the year.		

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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### 46. Additional disclosure in terms of Municipal Finance Management Act (continued)

#### Councillors' arrear consumer accounts

The following Councillors had arrear accounts outstanding for more than 90 days at 30 June 2013:

30 June 2013	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Underwood KG	1,290	-	1,290
Nemafhohoni N	498	668	1,166
Wilson LE	2,588	-	2,588
Malima E	69	1,416	1,485
Chililo NF	131	3,981	4,112
Mahladisa SV	667	2,973	3,640
Ahmed MO	7,040	(25)	7,015
Baloyi SR	398	12,769	13,167
Mboyi MD	29,106	-	29,106
Ngobeni NE	408	(45)	363
Mamafha TJ	631	5,491	6,122
Kennealy MD	6,124	2,611	8,735
Mathoma MP	1,404	21,732	23,136
	<b>50,354</b>	<b>51,571</b>	<b>101,925</b>

30 June 2012	Outstanding less than 90 days R	Outstanding more than 90 days R	Total R
Underwood JP	1,187	-	1,187
Jooma ZA	385	30,782	31,167
Nemafhohoni MG	234	995	1,229
Malange TM	1,761	-	1,761
Malima ME	279	2,981	3,260
Mathavha HF	335	4,070	4,405
Mathoma MP	246	3	249
Mamatsiara MS	123	-	123
Mukhari MF	56	1,060	1,116
Mahlalisa SV	500	12,910	13,410
Ahmed MO	3,507	-	3,507
Baloyi SR	460	16,059	16,519
Mutavhatsindi FD	131	-	131
Ngobeni NE	1,177	-	1,177
Mboyi MD	470	-	470
Selepe MR	1,916	-	1,916
Mboyi MD	427	5,568	5,995
Mashau TR	116	-	116
Kennealy A	3,139	8,295	11,434
	<b>16,449</b>	<b>82,723</b>	<b>99,172</b>

During the year the following Councillors' had arrear accounts outstanding for more than 90 days.

30 June 2012	Highest outstanding amount	Aging (in days)
Mathoma MP	21,732	90
Kennealy MD	2,611	90
Baloyi SR	12,769	90
Mamafha TJ	5,491	90

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
<b>46. Additional disclosure in terms of Municipal Finance Management Act (continued)</b>		
Mahlalisa SV	2,973	90
Chililo NF	3,981	90
Malima E	1,416	90
	<b>50,973</b>	<b>630</b>

### 47. Events after the reporting date

There were no events after reporting date (30 June 2013), known to management that can lead to significant changes in the statement of financial position in future.

### 48. Unauthorised expenditure

Opening balance	-	24,702,467
Current year	-	124,208,021
	-	<b>148,910,488</b>

### 49. Reconciliation between budget and statement of financial performance

Reconciliation of budget surplus/deficit with the surplus/deficit in the statement of financial performance:

Net deficit per the statement of financial performance	(29,248,877)	(136,386,556)
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### 50. Reconciliation between budget and cash flow statement

Reconciliation of budget surplus/deficit with the net cash generated from operating, investing and financing activities:

<b>Operating activities</b>		
Actual amount as presented in the budget statement	80,229,048	-
Timing differences	26,181,331	-
<b>Net cash flows from operating activities</b>	<b>106,410,379</b>	-
<b>Investing activities</b>		
Actual amount as presented in the budget statement	(22,671,649)	-
Timing differences	(63,981,365)	-
<b>Net cash flows from investing activities</b>	<b>(86,653,014)</b>	-
<b>Financing activities</b>		
Actual amount as presented in the budget statement	(42,454,583)	-
Timing differences	37,801,821	-
<b>Net cash flows from financing activities</b>	<b>(4,652,762)</b>	-
<b>Net cash generated from operating, investing and financing activities</b>	<b>15,104,603</b>	-

### 51. Utilisation of Long-term liabilities reconciliation

Long-term liabilities raised	9,147,217	12,053,274
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Long-term liabilities have been utilized in accordance with the Municipal Finance Management Act. Sufficient cash has been set aside to ensure that long-term liabilities can be repaid on redemption date.

### 52. Actual operating expenditure versus budgeted operating expenditure

Refer to Appendix A for the comparison of actual operating expenditure versus budgeted expenditure.

# MAKHADO LOCAL MUNICIPALITY

Annual Financial Statements for the year ended 30 June 2013

## Notes to the Annual Financial Statements

Figures in Rand	2013	2012
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### 53. Deviation from supply chain management regulations

Paragraph 12(1)(d)(i) of Government gazette No. 27636 issued on 30 May 2005 states that a supply chain management policy must provide for the procurement of goods and services by way of a competitive bidding process.

Paragraph 36 of the same gazette states that the accounting officer may dispense with the official procurement process in certain circumstances, provided that he records the reasons for any deviations and reports them to the next meeting of the accounting officer and includes a note to the annual financial statements.

The following is the quotation and tender deviation for the year as approved by the Accounting Officer. The reasons for these deviations were documented and reported to the accounting officer who considered them and subsequently approved the deviation from the normal supply chain management regulations.

**Quotation deviations for the 2012/2013 financial year in terms of the Supply Chain Management Regulations amounted to R 3 729 889.**

Below is a table with tender deviations for the 2012/2013 financial year.

Tender Deviation For 2012/13 Financial Year Service Provider	Date	Description of items	Motivation	Department	Amount
SKC Masakhiwe Engineers (Pty) Ltd	09/01/2013	Engineers for development of new landfill site	The service provider had already done preliminary designs of the site and effort to get engineers failed through tender	Technical	278,640
Musanda Chartered Accountants	15/02/2013	Compilation of Interim Annual Financial Statements and AG queries	Continuation of the work done the previous financial year	Finance	620,000
PWC	15/03/2013	Finalisation of asset register	Continuation of the work done the previous financial year	Finance	693,120
					<b>1,591,760</b>

### 54. Budget differences

#### Material differences between budget and actual amounts

The excess of actual expenditure over the final budget of 15% (25% over approved budget) for the Health function was due to expenditures above the level approved by legislative action in response to the earthquake. There were no other material differences between the final budget and the actual amounts.

# MAKHADO LOCAL MUNICIPALITY

## Appendix A

June 2013

### Schedule of external loans as at 30 June 2013

Loan Number	Amount	Balance at 30 June 2012	Received during the period	Redeemed written off during the period	Balance at 30 June 2013	Current portion	Long term portion
		Rand	Rand	Rand	Rand	Rand	Rand
<b>Annuity Loans</b>							
INCA	12,656,600	3,828,081	-	1,807,413	2,020,668	2,020,668	-
Development Bank of South Africa	7,000,000	6,192,434	-	800,291	5,392,143	-	5,392,143
1							
Development Bank of South Africa	2,110,000	2,032,759	-	298,353	1,734,406	-	1,734,406
2							
		<b>12,053,274</b>	<b>-</b>	<b>2,906,057</b>	<b>9,147,217</b>	<b>2,020,668</b>	<b>7,126,549</b>
<b>Total external loans</b>							
ANNUITY LOANS		12,053,274	-	2,906,057	9,147,217	2,020,668	7,126,549
		<b>12,053,274</b>	<b>-</b>	<b>2,906,057</b>	<b>9,147,217</b>	<b>2,020,668</b>	<b>7,126,549</b>

**MAKHADO LOCAL MUNICIPALITY**
**Appendix E(1)**

June 2013

**Actual versus Budget(Revenue and Expenditure) for the year ended 30 June 2013**

	Current year 2012 Act. Bal.	Current year 2012 Adjusted budget Rand	Variance Rand	Var	Explanation of Significant Variances greater than 10% versus Budget
<b>Revenue</b>					
Property rates	28,090,803	27,990,352	100,451	0.4	
Service charges	211,360,159	227,168,768	(15,808,609)	(7.0)	Water transactions revenue not accounted for as a result of the splitting of financial systems.
Government grants & subsidies	310,533,726	237,734,000	72,799,726	30.6	The difference is due to recognition of revenue of conditions met from conditional grants.
Rental of facilities and equipment	162,944	188,728	(25,784)	(13.7)	Less rental of municipal facilities than anticipated.
Interest received (trading)	16,356,985	18,242,040	(1,885,055)	(10.3)	
Licences and permits	12,197,122	10,507,010	1,690,112	16.1	
Other income	8,277,161	8,795,241	(518,080)	(5.9)	
Interest received - investment	1,339,096	562,261	776,835	138.2	Increased interest from call account and primary account and timing differences on compilation of the adjustment budget.
Fines	2,618,528	2,759,637	(141,109)	(5.1)	
	<u>590,936,524</u>	<u>533,948,037</u>	<u>56,988,487</u>	<u>10.7</u>	
<b>Expenses</b>					
Personnel	(196,668,008)	(199,916,418)	3,248,410	(1.6)	
Remuneration of councillors	(18,470,236)	(18,229,497)	(240,739)	1.3	
Depreciation	(110,068,253)	(130,000,000)	19,931,747	(15.3)	Increased for budget to cover revaluation of assets.
Impairments	(292,541)	-	(292,541)	-	
Finance costs	(6,533,387)	(733,675)	(5,799,712)	790.5	Increase finance cost due to correction of errors on finance leased assets.
Debt impairment	(27,934,403)	(47,000,000)	19,065,597	(40.6)	Reduced movement on provision than budgeted for as a result of basis of provision for bad debts made.
Repairs and maintenance - General	-	-	-	-	
Repairs and maintenance	(14,627,756)	(15,640,332)	1,012,576	(6.5)	
Bulk purchases	(155,817,747)	(150,882,839)	(4,934,908)	3.3	
General Expenses	(94,584,944)	(249,156,622)	154,571,678	(62.0)	Capitalisation of assets on the capital budget and under-expenditure on other operational expenditures.
	<u>(624,997,275)</u>	<u>(811,559,383)</u>	<u>186,562,108</u>	<u>(23.0)</u>	
Net surplus/ (deficit) for the year	<u>(34,060,751)</u>	<u>(277,611,346)</u>	<u>243,550,595</u>	<u>(87.7)</u>	

# MAKHADO LOCAL MUNICIPALITY

## Appendix G1

### Budgeted Financial Performance (revenue and expenditure by standard classification) for the year ended 30 June 2013

2013/2012															2012/2011														
Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA) Rand	Final adjustments budget	Shifting of funds (i.t.o. MFMA)	Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome															
Rand		Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand															
360,952,000	1,717,000	362,669,000	-	-	362,669,000	(299,475,000)	-	(662,144,000)	(83)%	(83)%	-	-	-	(14,790,000)															
310,671,000	534,000	311,205,000	-	-	311,205,000	(248,391,000)	-	(559,596,000)	(80)%	(80)%	-	-	-	-															
45,894,000	2,133,000	48,027,000	-	-	48,027,000	(48,978,000)	-	(97,005,000)	(102)%	(107)%	-	-	-	-															
4,387,000	(950,000)	3,437,000	-	-	3,437,000	(2,106,000)	-	(5,543,000)	(61)%	(81)%	-	-	-	-															
12,443,000	780,000	13,223,000	-	-	13,223,000	(14,790,000)	-	(28,013,000)	(112)%	(119)%	-	-	-	-															
12,443,000	780,000	13,223,000	-	-	13,223,000	(14,790,000)	-	(28,013,000)	(112)%	(119)%	-	-	-	-															
409,000	(80,000)	329,000	-	-	329,000	(286,000)	-	(885,000)	(78)%	(83)%	-	-	-	-															
409,000	(80,000)	329,000	-	-	329,000	(256,000)	-	(585,000)	(78)%	(83)%	-	-	-	-															
272,286,000	(40,016,000)	232,270,000	-	-	232,270,000	(206,134,000)	-	(438,404,000)	(89)%	(78)%	-	-	-	-															
238,513,000	(13,000,000)	225,513,000	-	-	225,513,000	(200,743,000)	-	(426,256,000)	(84)%	(89)%	-	-	-	-															
19,837,000	(19,954,000)	(117,000)	-	-	(117,000)	962,000	-	1,079,000	5 %	5 %	-	-	-	-															
6,125,000	(6,125,000)	-	-	-	-	(10,000)	-	(10,000)	DIV0 %	-	-	-	-	-															
7,811,000	(937,000)	6,874,000	-	-	6,874,000	(6,343,000)	-	(13,217,000)	(92)%	(81)%	-	-	-	-															
(42,000)	-	(42,000)	-	-	(42,000)	42,000	-	84,000	(100)%	(100)%	-	-	-	-															
(42,000)	-	(42,000)	-	-	(42,000)	42,000	-	84,000	(100)%	(100)%	-	-	-	-															
646,048,000	(37,599,000)	608,449,000	-	-	608,449,000	(520,613,000)	-	(1,128,062,000)	(86)%	(81)%	-	-	-	(14,790,000)															
Total Revenue - Standard																													

# MAKHADO LOCAL MUNICIPALITY

## Appendix G1

### Budgeted Financial Performance (revenue and expenditure by standard classification) for the year ended 30 June 2013

2013/2012															2012/2011														
Original Budget	Budget Adjustments (i.e. s28 and s31 of the MFMA)	Final adjustments budget	Shifting of funds (i.e. s31 of the MFMA)	Virement (i.e. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % unauthorised expenditure	Reported expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome															
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand															
432,611,000	121,973,000	554,584,000	-	-	554,584,000	(254,309,000)	-	(808,893,000)	(46)%	(59)%	-	-	-	-															
27,046,000	(512,000)	26,534,000	-	-	26,534,000	(14,673,000)	-	(41,207,000)	(55)%	(54)%	-	-	-	-															
203,596,000	98,004,000	301,600,000	-	-	301,600,000	(15,918,000)	-	(317,518,000)	(5)%	(8)%	-	-	-	-															
201,969,000	24,481,000	226,450,000	-	-	226,450,000	(223,718,000)	-	(450,168,000)	(99)%	(111)%	-	-	-	-															
13,300,000	5,032,000	18,332,000	-	-	18,332,000	(18,888,000)	-	(37,220,000)	(103)%	(142)%	-	-	-	-															
13,300,000	5,030,000	18,330,000	-	-	18,330,000	(18,887,000)	-	(37,217,000)	(103)%	(142)%	-	-	-	-															
-	2,000	2,000	-	-	2,000	(1,000)	-	(3,000)	(50)%	DIV/0	-	-	-	-															
1,100,000	434,000	1,534,000	-	-	1,534,000	(807,000)	-	(2,341,000)	(53)%	(73)%	-	-	-	-															
1,100,000	434,000	1,534,000	-	-	1,534,000	(807,000)	-	(2,341,000)	(53)%	(73)%	-	-	-	-															
165,795,000	(5,904,000)	159,891,000	-	-	159,891,000	(119,082,000)	-	(278,973,000)	(74)%	(73)%	-	-	-	-															
158,749,000	(4,806,000)	153,943,000	-	-	153,943,000	(117,448,000)	-	(271,391,000)	(76)%	(74)%	-	-	-	-															
6,781,000	(1,903,000)	4,878,000	-	-	4,878,000	(569,000)	-	(5,447,000)	(12)%	(8)%	-	-	-	-															
265,000	(265,000)	-	-	-	-	-	-	-	DIV/0	-	-	-	-	-															
-	1,070,000	1,070,000	-	-	1,070,000	(1,065,000)	-	(2,135,000)	(100)%	DIV/0	-	-	-	-															
34,650,000	(94,000)	34,556,000	-	-	34,556,000	(29,377,000)	-	(63,933,000)	(85)%	(85)%	-	-	-	-															
34,650,000	(94,000)	34,556,000	-	-	34,556,000	(29,377,000)	-	(63,933,000)	(85)%	(85)%	-	-	-	-															
647,466,000	121,441,000	768,897,000	-	-	768,897,000	(422,463,000)	-	(1,191,360,000)	(55)%	(65)%	-	-	-	-															
Total Expenditure - Standard															(14,790,000)														
Surplus/(Deficit) for the year															6,971%														



# MAKHADO LOCAL MUNICIPALITY

## Appendix G2

### Budgeted Financial Performance (revenue and expenditure by municipal vote) for the year ended 30 June 2013

2013/2012										2012/2011									
Original Budget	Budget Adjustments (i.t.o. s28 and s31 of the MFMA)		Final budget	Shifting of funds (i.t.o. MFMA)		Virement (i.t.o. Council approved policy)	Final Budget	Actual Outcome	Unauthorised expenditure	Variance	Actual Outcome as % of Final Budget	Actual Outcome as % of Original Budget	Reported unauthorised expenditure	Expenditure authorised in terms of section 32 of MFMA	Balance to be recovered	Restated Audited Outcome			
Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand	Rand			
Revenue by Vote																			
Executive and Council	301,846,843	362,311	302,209,154	-	-	-	302,209,154	236,489,001	-	(65,720,153)	78 %	78 %	-	-	-	-			
Waste Management	9,640,586	(5,235,163)	4,405,423	-	-	-	4,405,423	6,198,275	-	1,792,852	141 %	64 %	-	-	-	-			
Road Transport	12,389,370	1,102,112	13,491,482	-	-	-	13,491,482	15,033,789	-	1,542,307	111 %	121 %	-	-	-	-			
Water	18,924,645	(18,921,045)	3,600	-	-	-	3,600	(973,622)	-	(977,222)	(27,045)%	(5)%	-	-	-	-			
Electricity	245,428,779	(12,501,996)	232,926,783	-	-	-	232,926,783	210,745,423	-	(22,181,360)	90 %	86 %	-	-	-	-			
Corporate Services	25,768,988	(43,399)	25,725,589	-	-	-	25,725,589	26,663,295	-	937,706	104 %	103 %	-	-	-	-			
Planning and Development	100,846	(79,346)	21,500	-	-	-	21,500	16,150	-	(5,350)	75 %	16 %	-	-	-	-			
Community and Social Services	158,819	(94,124)	64,695	-	-	-	64,695	102,240	-	37,545	158 %	64 %	-	-	-	-			
Housing	98,626	(49,675)	48,951	-	-	-	48,951	46,570	-	(2,381)	95 %	47 %	-	-	-	-			
Other	-	219,555	219,555	-	-	-	219,555	219,555	-	-	100 %	DIV/0	-	-	-	-			
Sports and Recreation	142,023	(101,813)	40,210	-	-	-	40,210	27,546	-	(12,664)	69 %	19 %	-	-	-	-			
Budget and Treasury	31,443,578	(2,106,389)	29,337,209	-	-	-	29,337,209	28,089,905	-	(1,247,304)	96 %	89 %	-	-	-	-			
Total Revenue by Vote	646,943,103	(37,448,962)	608,494,151	-	-	-	608,494,151	522,668,127	-	(85,836,024)	86 %	81 %	-	-	-	-			
Expenditure by Vote to be appropriated																			
Executive and Council	224,347,588	(12,594,521)	211,753,067	-	-	-	211,753,067	94,405,654	-	(117,347,413)	45 %	42 %	-	-	-	-			
Waste Management	3,315,496	2,104,301	5,419,797	-	-	-	5,419,797	6,191,837	-	772,040	114 %	187 %	-	-	-	-			
Road Transport	18,713,228	2,763,506	21,476,734	-	-	-	21,476,734	20,282,607	-	(1,194,127)	94 %	108 %	-	-	-	-			
Water	4,684,919	2,105,241	6,790,160	-	-	-	6,790,160	11,126,605	-	4,336,445	164 %	237 %	-	-	-	-			
Electricity	193,250,834	937,669	194,188,503	-	-	-	194,188,503	146,109,313	-	(48,079,190)	75 %	76 %	-	-	-	-			
Corporate Services	39,605,489	610,494	40,215,983	-	-	-	40,215,983	36,040,040	-	(4,175,943)	90 %	91 %	-	-	-	-			
Planning and Development	6,443,507	4,078,095	10,522,602	-	-	-	10,522,602	9,909,113	-	(613,489)	94 %	154 %	-	-	-	-			
Community and Social Services	13,806,080	2,567,043	16,373,123	-	-	-	16,373,123	15,243,862	-	(1,129,261)	93 %	110 %	-	-	-	-			
Housing	-	1,849	1,849	-	-	-	1,849	748	-	(1,101)	40 %	DIV/0	-	-	-	-			
Other	12,661,862	3,414,100	16,075,962	-	-	-	16,075,962	13,482,032	-	(2,593,930)	84 %	106 %	-	-	-	-			
Sports and Recreation	9,158,917	19,201	9,178,118	-	-	-	9,178,118	8,380,546	-	(797,572)	91 %	92 %	-	-	-	-			
Budget and Treasury	110,923,316	113,831,848	224,755,164	-	-	-	224,755,164	46,273,960	-	(178,481,204)	21 %	42 %	-	-	-	-			
Total Expenditure by Vote	636,911,236	119,839,926	756,751,062	-	-	-	766,761,062	407,446,317	-	(349,304,745)	54 %	64 %	-	-	-	-			
Surplus/(Deficit) for the year	9,031,867	(157,288,778)	(148,256,911)	-	-	-	(148,256,911)	115,211,810	-	263,468,721	(78)%	1,276 %	-	-	-	-			

# MAKHADO LOCAL MUNICIPALITY

## Appendix G3

### Budgeted Financial Performance (revenue and expenditure) for the year ended 30 June 2013

	2013/2012				2012/2011			
	Original Budget		Final Budget		Reported unauthorised expenditure		Expenditure authorised in terms of section 32 of MFMA	
	Rand	Adjusted (i.t.o. s28 and s31 of the MFMA) Rand	Rand	Final Budget (i.t.o. Council approved policy) Rand	Actual Outcome Rand	Variance Rand	Actual Outcome of Final Budget Rand	Actual Outcome as % of Original Budget Rand
<b>Revenue By Source</b>								
Property rates	27 434 446	555 906	27 990 352	27 990 352	28 182 089	191 737	101 %	103 %
Service charges - electricity revenue	233 513 167	(13 095 846)	220 413 321	220 413 321	196 743 127	(23 670 194)	89 %	84 %
Service charges - water revenue	26 000 714	(26 117 514)	(116 800)	(116 800)	6 340 120	(623 846)	634 %	(3) %
Service charges - refuse revenue	7 810 604	(938 357)	6 872 247	6 872 247	6 340 120	(532 127)	92 %	81 %
Rental of facilities and equipment	363 898	(175 170)	188 728	188 728	179 934	(8 794)	95 %	49 %
Interest earned - external investments	966 663	(404 402)	562 261	562 261	1 338 180	775 919	238 %	138 %
Interest earned - outstanding debtors	16 944 233	1 297 807	18 242 040	18 242 040	16 356 985	(1 885 055)	90 %	97 %
Fines	2 085 754	673 883	2 759 637	2 759 637	2 621 428	(138 209)	95 %	126 %
Licences and permits	10 168 213	338 797	10 507 010	10 507 010	12 197 627	1 690 617	116 %	120 %
Transfers recognised - operational	237 734 000		237 734 000	237 734 000	235 962 420	(1 771 580)	99 %	99 %
Other revenue	8 624 554	170 687	8 795 241	8 795 241	8 885 272	90 031	101 %	103 %
<b>Total Revenue (excluding capital transfers and contributions)</b>	<b>571 646 246</b>	<b>(37 698 209)</b>	<b>533 948 037</b>	<b>533 948 037</b>	<b>508 066 536</b>	<b>(25 881 501)</b>	<b>95 %</b>	<b>89 %</b>

# MAKHADO LOCAL MUNICIPALITY

## Appendix G3

### Budgeted Financial Performance (revenue and expenditure)

for the year ended 30 June 2013

2013/2012

2012/2011

Expenditure By Type	Original Budget		Budget Adjustments (i.e. s28 and MFMA)		Final budget adjustments		Shifting of funds (i.e. s31 of the MFMA)		Virement (i.e. Council approved policy)		Final Budget		Actual Outcome		Unauthorised expenditure		Variance		Actual Outcome as % of Final Budget		Reported expenditure		Expenditure authorised in terms of section 32 of MFMA		Balance to be recovered		Restated Audited Outcome	
	Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand		Rand	
Employee related costs	176,536,937		23,379,481		199,916,418		-		-		199,916,418		-		-		(199,916,418)		-		-		-		-		-	
Remuneration of councillors	17,172,482		1,057,015		18,229,497		-		-		18,229,497		-		-		(18,229,497)		-		-		-		-		-	
Debt impairment	8,762,270		38,237,730		47,000,000		-		-		47,000,000		-		-		(47,000,000)		-		-		-		-		-	
Depreciation & asset impairment	60,000,000		70,000,000		130,000,000		-		-		130,000,000		-		-		(130,000,000)		-		-		-		-		-	
Finance charges	663,486		70,189		733,675		-		-		733,675		-		-		(733,675)		-		-		-		-		-	
Bulk purchases	149,787,067		1,095,772		150,882,839		-		-		150,882,839		-		-		(150,882,839)		-		-		-		-		-	
Other expenditure	280,179,620		(15,382,666)		264,796,954		-		-		264,796,954		-		-		(264,796,954)		-		-		-		-		-	
Total Expenditure	693,101,862		118,457,521		811,559,383		-		-		811,559,383		-		-		(811,559,383)		-		-		-		-		-	
Surplus/(Deficit)	(121,455,616)		(156,155,730)		(277,611,346)		-		-		(277,611,346)		508,066,536		-		785,677,882		(183)%		(418)%		-		-		-	
Surplus/(Deficit) after capital transfers & contributions	(121,455,616)		(156,155,730)		(277,611,346)		-		-		(277,611,346)		508,066,536		-		785,677,882		(183)%		(418)%		-		-		-	
Surplus/(Deficit) after taxation	(121,455,616)		(156,155,730)		(277,611,346)		-		-		(277,611,346)		508,066,536		-		785,677,882		(183)%		(418)%		-		-		-	
Surplus/(Deficit) attributable to municipality	(121,455,616)		(156,155,730)		(277,611,346)		-		-		(277,611,346)		508,066,536		-		785,677,882		(183)%		(418)%		-		-		-	
Surplus/(Deficit) for the year	(121,455,616)		(156,155,730)		(277,611,346)		-		-		(277,611,346)		508,066,536		-		785,677,882		(183)%		(418)%		-		-		-	

MAKHADO MUNICIPALITY

APPENDIX B

MAKHADO MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2013

	Opening Balance	Correction of Error	Capital Revaluation Additions	Capital WIP 2013	Disposals/Transfers	Closing Balance	Capital WIP 2012	Opening Balance	Correction of Error	Additions	Disposals/Transfers	Impairment Revaluation	Closing Balance	Carrying value 2013
<b>LAND AND BUILDINGS</b>														
DEVELOPED LAND	211,048,049.78	-	-	-	-	211,048,049.78	-	-	-	-	-	-	-	211,048,049.78
UNDEVELOPED LAND	56,297,762.75	-	-	-	-	56,297,762.75	-	-	-	-	-	-	-	56,297,762.75
DWELLINGS	17,846,547.17	-	-	-	-	17,846,547.17	61,202.78	740,172.75	-	568,910.48	-	-	1,309,083.23	16,537,463.94
LANDFILL SITE	5,097,138.55	-	-	1,250,141.38	-	6,347,279.93	-	1,591,150.75	-	1,650,055.44	-	-	3,241,206.20	3,506,073.73
<b>NON RESIDENTIAL STRUCTURES</b>														
	35,641,260.61	-	-	-	-	35,641,260.61	123,417.50	8,578,233.58	-	1,102,340.58	-	-	9,680,584.16	25,960,596.45
<b>Total</b>	<b>326,330,758.86</b>			<b>1,250,141.38</b>		<b>327,580,900.24</b>	<b>184,620.28</b>	<b>10,909,547.08</b>		<b>3,371,306.50</b>			<b>14,230,853.59</b>	<b>313,350,046.65</b>
<b>INFRASTRUCTURE</b>														
ROADS	912,886,949.29	-	-	8,493,080.13	-	921,380,029.42	11,597,468.74	753,464,631.45	-	40,739,019.55	-	-	294,403,651.00	676,976,378.42
ELECTRICITY	888,471,670.68	-	-	52,431,421.25	-	940,903,091.93	9,340,114.42	142,898,235.08	-	56,356,600.64	-	38,509.24	199,293,344.95	741,612,746.98
<b>SOLID WASTE DISPOSAL</b>														
<b>Total</b>	<b>1,801,361,619.97</b>			<b>60,924,501.38</b>		<b>1,862,286,121.35</b>	<b>20,937,583.16</b>	<b>396,362,866.52</b>		<b>97,095,620.19</b>		<b>38,509.24</b>	<b>493,695,995.95</b>	<b>1,368,589,125.41</b>
<b>OTHER</b>														
MACHINERY AND EQUIPMENT	18,355,761.59	-	6,733,730.04	-	-	25,089,491.63	-	7,994,883.03	-	2,103,936.58	-	-	10,098,819.61	14,994,172.02
FURNITURE AND OFFICE EQUIPMENT	8,544,371.97	-	534,361.85	-	-	9,078,733.82	-	3,423,227.61	-	566,353.54	-	-	3,989,581.15	5,089,152.67
COMPUTER EQUIPMENT	4,985,139.01	-	813,911.34	-	-	5,799,050.35	-	2,652,562.57	-	663,810.88	-	-	3,316,373.44	2,482,676.90
TRANSPORT ASSETS	25,892,471.46	-	8,062,549.56	-	-	33,955,021.03	-	8,945,723.57	-	3,085,914.41	-	-	12,031,637.98	21,913,383.05
LIBRARY BOOKS	1,688,551.19	-	1,688,551.19	-	-	3,377,102.38	-	336,554.49	-	6,756,560.89	-	-	29,772,966.67	45,841,381.35
<b>Total</b>	<b>57,781,744.03</b>		<b>17,832,603.98</b>			<b>75,614,348.01</b>		<b>23,016,396.78</b>		<b>6,756,560.89</b>			<b>29,772,966.67</b>	<b>45,841,381.35</b>
<b>FINANCE LEASES</b>														
LEASED VEHICLES	26,363,789.57	-	-	-	-	26,363,789.57	-	8,590,364.89	-	3,954,864.00	-	-	12,545,228.89	13,818,560.68
<b>Total</b>	<b>26,363,789.57</b>					<b>26,363,789.57</b>		<b>8,590,364.89</b>		<b>3,954,864.00</b>			<b>12,545,228.89</b>	<b>13,818,560.68</b>
<b>HERITAGE ASSETS</b>														
HERITAGE ASSETS	520,978.86	-	-	-	-	520,978.86	-	-	-	-	-	-	-	520,978.86
<b>Total</b>	<b>520,978.86</b>					<b>520,978.86</b>								<b>520,978.86</b>
<b>BIOLOGICAL OR CULTIVATED ASSETS</b>														
BIOLOGICAL OR CULTIVATED ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
<b>Total</b>														
<b>INTANGIBLE ASSETS</b>														
INTANGIBLE ASSETS	41,848.75	-	-	-	-	41,848.75	-	20,943.48	-	6,981.16	-	-	27,924.65	13,924.10
<b>Total</b>	<b>41,848.75</b>					<b>41,848.75</b>		<b>20,943.48</b>		<b>6,981.16</b>			<b>27,924.65</b>	<b>13,924.10</b>
<b>INVESTMENT PROPERTY</b>														
INV UNDEVELOPED LAND	44,033,525.37	-	-	-	-	44,033,525.37	-	-	-	-	-	-	-	44,033,525.37
INV DEVELOPED LAND	6,482,575.07	-	-	-	-	6,482,575.07	-	-	-	-	-	-	-	6,482,575.07
INV DWELLINGS	1,975,362.45	-	-	-	-	1,975,362.45	-	-	-	-	-	-	-	1,975,362.45
<b>INV NON RESIDENTIAL STRUCTURES</b>														
<b>Total</b>	<b>52,491,462.89</b>					<b>52,491,462.89</b>								<b>52,491,462.89</b>
<b>COMMUNITY ASSETS</b>														
CEMETERIES	6,293,688.66	-	-	-	-	6,293,688.66	-	1,747,053.37	-	209,066.34	-	-	1,956,119.71	4,337,568.95
CEMETERIES PERIMETER PROTECTION	183,978.14	-	-	-	-	183,978.14	-	90,965.92	-	4,278.48	-	-	95,244.40	88,733.74
CIVIC THEATERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CLINICS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
COMMUNITY CENTRE	22,182,878.30	-	-	5,601,711.96	-	27,784,590.26	2,410,731.29	9,451,404.27	-	437,927.97	-	-	10,089,327.19	17,695,203.08
LIBRARIES	1,567,592.43	-	-	-	-	1,567,592.43	384,340.50	3,238,437.83	-	39,464.69	-	-	430,098.12	1,133,494.31
SPORT AND RECREATIONAL FACILITIES	9,993,413.05	-	-	994,948.73	-	10,988,361.78	-	-	-	310,042.44	-	254,031.62	3,802,511.88	7,185,849.90
<b>TOWNSHIP DEVELOPMENT</b>														
<b>Total</b>	<b>40,221,490.59</b>			<b>6,596,660.69</b>		<b>46,818,151.28</b>	<b>2,795,071.79</b>	<b>15,122,494.82</b>		<b>1,000,774.85</b>		<b>254,031.62</b>	<b>16,377,301.30</b>	<b>30,440,849.98</b>
<b>Grant Total</b>	<b>2,305,113,693.52</b>		<b>17,832,603.98</b>	<b>68,771,303.45</b>		<b>2,391,717,600.95</b>	<b>23,917,275.23</b>	<b>454,212,613.59</b>		<b>112,136,116.60</b>		<b>282,540.85</b>	<b>566,651,271.04</b>	<b>1,825,066,329.91</b>

## APPENDIX B

**MAKHADO MUNICIPALITY : ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2012**

MARRADU MUNICIPALITY: ANALYSIS OF PROPERTY PLANT AND EQUIPMENT AS AT 30 JUNE 2012														
Cost/Rewaluation														
	Opening Balance	Correction of Error	Additions	Disposals/ Transfers	Closing Balance	Capital WPP 2011	Capital WPP 2012	Operating Balance	Correction of Error	Additions	Disposals/ Transfers	Impairment Revaluation	Closing Balance	Carrying value 23.12
LAND AND BUILDINGS														
DEVELOPED LAND	115,711,200.00	95,336,849.78	-	-	211,048,049.78	-	-	-	-	-	-	-	-	211,048,049.78
UNDEVELOPED LAND	42,018,700.00	14,279,062.75	-	-	56,297,762.75	-	-	-	-	-	-	-	-	56,297,762.75
UNDEVELOPED LANDS	207,844.39	17,071,202.78	567,500.00	-	17,846,547.17	61,202.78	61,202.78	41,587.00	6,521.67	574,321.25	-	117,742.84	740,172.75	17,106,374.42
LANDFILL SITE	59,017.47	5,438,121.08	-	-	5,497,138.55	-	-	7,775,823.00	1,275,350.27	315,800.49	-	1,395,727.37	1,591,150.75	3,905,987.80
NON RESIDENTIAL STRUCTURES	25,746,516.28	9,894,744.32	-	-	35,641,260.61	123,417.50	123,417.50	7,817,410.00	-422,966.07	2,074,820.34	-	1,513,470.21	8,651,210.98	26,989,846.65
Total	183,743,278.14	142,019,980.71	567,500.00	-	326,330,758.86	184,620.28	184,620.28	7,817,410.00	-422,966.07	2,074,820.34	-	10,982,734.48	315,348,024.38	315,348,024.38
INFRASTRUCTURE														
ELECTRICITY	892,542,861.53	15,905,411.66	438,676.10	-	912,886,949.29	19,772,552.80	28,534,303.73	121,624,538.00	83,362,376.44	39,877,790.37	-	8,800,426.63	253,664,631.45	659,222,317.84
ROADS	702,305,365.73	187,445,361.80	23,466,833.28	-	888,474,670.68	9,550,746.49	9,550,746.49	184,553,149.00	145,667,598.81	67,975,052.42	-	39,000,014.02	142,898,235.08	745,576,435.60
SOLID WASTE DISPOSAL	67,543.86	-	-	-	67,543.86	-	-	15,211.00	0.25	6,759.01	-	21,970.26	2,962,381.55	2,962,381.55
Total	1,594,915,771.12	207,350,773.46	23,905,509.38	-24,810,433.99	1,801,361,619.97	19,272,552.80	38,085,050.22	306,192,898.00	-62,305,222.12	107,859,101.80	-2,984,351.81	47,800,440.66	396,562,866.52	1,404,798,733.45
OTHER														
MACHINERY AND EQUIPMENT	12,244,486.23	6,807,559.27	836,741.69	1,524,025.60	18,359,761.59	-	-	7,757,155.00	-682,586.10	1,649,127.25	-	83,218.34	7,994,883.03	10,364,878.56
FURNITURE AND OFFICE EQUIPMENT	7,619,749.96	2,011,545.25	654,386.87	1,741,310.11	8,546,371.97	-	-	1,335,490.00	1,543,310.11	864,703.66	-	197,669.12	9,423,227.61	5,121,144.36
COMPUTER EQUIPMENT	5,572,358.24	658,232.93	716,531.77	1,961,983.89	4,985,130.01	-	-	2,414,617.00	144,218.92	942,341.97	-	85,625.85	2,332,576.44	2,332,576.44
TRANSPORT ASSETS	18,246,578.48	7,645,892.98	-	-	25,892,471.46	-	-	8,751,324.00	1,806,608.30	7,000,584.99	-	422.87	8,945,723.57	16,946,747.89
LIBRARY BOOKS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Total	43,683,172.91	17,118,230.44	2,207,660.28	-5,227,319.60	57,781,744.03	-	-	20,258,586.00	-801,647.31	5,456,757.82	-2,364,235.92	366,936.19	23,016,396.78	34,765,347.25
FINANCE LEASES	28,093,195.00	-	-	-	28,093,195.00	-	-	16,103,363.72	-	6,570,788.00	-	12,303,881.00	10,319,770.72	17,773,424.28
LEASED VEHICLES	28,093,195.00	-	-	-	28,093,195.00	-	-	5,940,091.00	-	6,570,788.00	-12,303,881.00	-	10,319,770.72	17,773,424.28
HERITAGE ASSETS	520,978.86	-	-	-	520,978.86	-	-	364,685.20	-	52,133.57	-	-	416,818.77	104,160.09
HERITAGE ASSETS	520,978.86	-	-	-	520,978.86	-	-	364,685.20	-	52,133.57	-	-	416,818.77	104,160.09
BIOLOGICAL OR CULTIVATED ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
BIOLOGICAL OR CULTIVATED ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INTANGIBLE ASSETS	41,848.75	-	-	-	41,848.75	-	-	13,962.33	-6.36	6,979.57	-	-	20,935.55	20,913.20
INTANGIBLE ASSETS	41,848.75	-	-	-	41,848.75	-	-	13,962.33	-6.36	6,979.57	-	-	20,935.55	20,913.20
INVESTMENT PROPERTY	-	-	-	-	-	-	-	-	-	-	-	-	-	-
INV UNDEVELOPED LAND	-	44,033,525.37	-	-	44,033,525.37	-	-	-	-	-	-	-	-	44,033,525.37
INV UNDEVELOPED LAND	-	5,727,857.09	-	-	6,482,575.07	-	-	149,964.59	-	-	-	-	-	6,482,575.07
INV DWELLINGS	754,717.98	1,975,362.45	-	-	1,975,362.45	-	-	-	-	-	-	-	-	1,975,362.45
INV NON RESIDENTIAL STRUKTURES	754,717.98	51,736,744.91	-	-	52,491,462.89	-	-	149,964.59	-149,964.59	-	-	-	-	52,491,462.89
Total	754,717.98	51,736,744.91	-	-	52,491,462.89	-	-	149,964.59	-149,964.59	-	-	-	-	52,491,462.89
COMMUNITY ASSETS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CEMETERIES	5,038,968.66	1,754,720.00	-	-	6,293,688.66	-	-	412,351.00	1,100,113.79	709,993.31	-	24,655.27	1,747,053.37	4,546,635.29
CEMETERIES PERIMETER PROTECTION	136,103.64	-	47,874.50	-	183,978.14	-	-	31,908.00	3,182.57	4,544.27	-	51,331.08	90,965.92	93,012.22
CIVIC THEATERS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
CLINICS	-	-	-	-	-	-	-	-	-	-	-	-	-	-
COMMUNITY CENTRE	17,475,324.78	2,410,731.29	2,296,762.23	-	22,182,818.30	-	2,410,731.29	5,833,408.00	1,803,805.62	582,803.26	-	5,038,998.63	9,651,404.27	12,531,414.03
LIBRARIES	1,183,251.93	384,340.50	-	-	1,567,592.43	-	384,340.50	315,748.00	39,415.68	39,468.75	-	394,633.43	1,172,959.00	3,754,975.22
SPORT AND RECREATIONAL FACILITIES	8,871,721.12	1,121,691.93	-	-	9,993,413.05	-	334,191.93	3,622,037.00	750,070.98	347,352.91	-	19,118.90	3,238,437.83	6,754,975.22
TOWNSHIP DEVELOPMENT	42,677,721.30	-42,677,721.30	-	-	-	-	-	-	-	-	-	-	-	-
Total	75,383,091.44	-37,506,237.58	2,344,636.73	-	40,221,490.59	-	3,129,263.72	10,215,453.00	-1,411,164.55	1,184,102.50	-	5,134,103.87	15,122,494.82	25,098,995.77
Grant Total	1,927,136,054.21	380,719,491.94	29,025,306.39	-30,037,753.59	2,306,843,098.95	19,272,552.80	41,398,394.22	350,953,056.48	-104,674,798.22	122,700,954.35	-5,748,587.73	54,814,950.92	418,545,575.80	1,850,401,081.30